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Politics this week

Jan 30th 2003
From The Economist print edition

Disarming arguments

Hans Blix, the chief UN weapons inspector, told the Security Council that **Iraq**, on balance, had not accepted the disarmament expected of it. For the International Atomic Energy Agency, Mohamed ElBaradei reported that there was no evidence that Iraq had revived its nuclear-weapons programme.

See article: Iraq's weapons and the Blix report

President George Bush used his state-of-the-union address to make his case for a **war against Iraq**. To reassure America's many doubters, he promised that Colin Powell, the secretary of state, would present evidence of Iraq's weapons of mass destruction to the UN Security Council on February 5th. A CBS poll showed that support among Americans for military action endorsed by the UN rose from 67% before the address to 77% afterwards.

See article: Working on the sceptics

European countries were divided on Iraq. The leaders of Britain, Spain, Italy, Portugal, Denmark, Hungary, Poland and the Czech Republic signed a letter to the media urging solidarity with America. Germany remained dead against a war; France stood somewhere glorious in between.

See article: Europe's old anti-Americanism

Mildly stimulating

AP

George Bush confessed that **America's economy** was not growing quickly enough, but his state-of-the-union speech offered only a $674 billion stimulus proposal to put things right. He promised $400 billion over ten years to modernise Medicare, the federal health programme for the elderly, and $15 billion over five years for fighting AIDS in Africa and Haiti. As a sop to environmentalists, and to reduce dependence on foreign oil, he also proposed new funding for developing hydrogen-powered cars.

See article: A risk-taking state-of-the-union address

In the driving seat

AP

In **Israel's** election, Ariel Sharon's Likud party almost doubled its Knesset seats from 19 to 37. This puts him in a strong position for coalition-building. But Labour's leader, Amram Mitzna, says he will not join, and the centrist Shinui party, which came third, will not share power with an ultra-Orthodox party.

See article: Back on top

A much-heralded meeting of **Palestinian** leaders in Cairo broke up without agreement. The Israeli army drove deep into Gaza City, destroying factories and shops, and killing 12 Palestinians.

See article: Palestinians without agreement

The government of **Côte d'Ivoire** agreed in Paris that it would share power with rebel groups. But unconfirmed details of the deal caused rioting in Abidjan, especially against the French, who had godfathered the agreement.

See article: Côte d'Ivoire's shaky accord

After getting together in South Africa, the president and main rebel leader of **Burundi** called for the swift deployment of the peacekeeping troops that South Africa, Mozambique and Ethiopia have promised to contribute.

Ayatollah Hussein-Ali Montazeri, **Iran's** leading liberal cleric, was released from house arrest where he has been since he criticised the supreme leader, Ayatollah Ali Khamenei, in 1997. Meanwhile, Iran's Supreme Court commuted death sentences on ex-secret agents found guilty of murdering four political dissidents in 1998.

In drought-struck **Zimbabwe**, the government ordered the official meteorological office to issue no more weather forecasts without clearing them with the presidency.

Europe tackles terror

Police arrested more than a score of **Islamic terrorist suspects**, most of them of North African origin, in Spain, Italy and Britain. The biggest catch was in Catalonia, in north-eastern Spain, where 16 were nabbed at a dozen locations.

See article: The fight against Islamic terrorism in Europe

Italy's supreme court rebuffed the prime minister, Silvio Berlusconi, who had demanded that his trial for the alleged bribing of judges during a business take-over be moved from Milan, where he says the judges presiding over the trial are biased against him, to another district's jurisdiction.

See article: Italy, its prime minister and the law

Gudrun Schyman resigned as head of **Sweden's** ex-communist Left party, which has a parliamentary pact with the ruling Social Democrats, after the tax authorities said she had fiddled her expenses.

Strike breaking?

EPA

Venezuela's opposition-led strike aimed at ousting President Hugo Chávez began to crack, as it entered its ninth week. Banks said they would open normally from next week. Though most oil workers remained on strike, oil output climbed above 1m barrels per day, still well down on its normal level of 3m.

A congress of **Argentina's** ruling Peronist party voted to cancel a primary vote ahead of a presidential election due in April. That was seen as a setback for the presidential hopes of Carlos Menem and a victory for the current president, Eduardo Duhalde.

See article: The battle over Argentina's election

Afghans fight it out

In the biggest battle in **Afghanistan** for nearly a year, American and Afghan-government forces exchanged fire with about 80 fighters believed to be members of the Taliban and their supporters. An American spokesman said 18 rebels were killed. No American or government casualties were reported.

See article: Fighting in Afghanistan

Thailand's embassy in Phnom Penh was set on fire by a mob protesting over a report that a Thai actress, Suwanna Konying, said that Angkor Wat, **Cambodia's** most famous building, belonged to the Thais. Thailand evacuated hundreds of its nationals from the city.

AP

See article: Thais and Cambodians at loggerheads

Maoist rebels and the government of **Nepal** agreed to a ceasefire designed to lead to peace talks. More than 7,000 people have died in nearly seven years of fighting.

India's prime minister, Atal Behari Vajpayee, revamped his cabinet ready for a general election due in 2004.

A South Korean envoy sent to **North Korea** to seek an end to its nuclear-arms programme was snubbed by the North's President Kim Jong Il. The North, accusing America of the tactics of a “serpent”, said it wants a promise by America not to attack it to be ratified by Congress because it does not trust the Bush administration.

Pakistan claimed to have shot down a pilotless Indian spy plane in **Kashmir**. India denied the incident.

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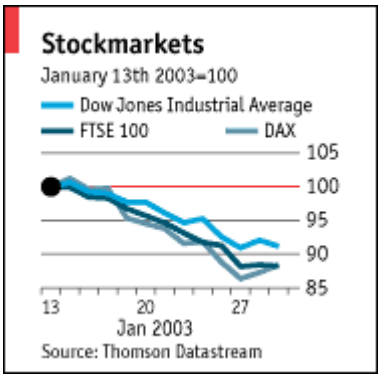
Business this week

Jan 30th 2003
From The Economist print edition

Market jitters

The **world's stockmarkets** quivered as the threat of a war in Iraq intensified. The Dow Jones Industrial Average fell below 8,000 for the first time since October 2002, before regaining ground; the FTSE 100 fell for 11 days in a row, to a seven-year low before a slight recovery; and European markets also sank. Adding to the gloom, America's economy was reported to have grown by only 0.7% at an annual rate in the fourth quarter of 2002, down from 4.0% in the third quarter.

See article: How low could they go?



Drug deals

Novartis, a Swiss drug company, spent some *euro*2 billion ($2.2 billion) to raise its share of voting rights in **Roche**, a home-town rival, to nearly 33%, just below the level at which Swiss law would require a bid for the company.

Bayer's shares hit a near ten-year low. Blame falls on the German chemical giant's poorly performing drug unit, which could have to pay out heavily over a recalled drug. Bayer's much-touted hopes of selling its drug arm receded.

Britain's government handed a £2.9 billion ($4.8 billion) contract to deliver two aircraft carriers to **BAE Systems**, a British company. But a condition of the deal is that France's Thales, the other bidder for the contract, will design the ships.

Capital flight

America's most troubled media giant, **AOLTime Warner** announced the biggest-ever loss in American corporate history. After taking a $45.5 billion charge in the fourth quarter to write down the value of its America Online division, it reported a loss of $98.7 billion for 2002 as a whole. Ted Turner, the group's vice-chairman, also said that he would step down.

Shares in **AMR**, the parent company of America's biggest airline, American Airlines, fell to an all-time low. Investors fear the twin evils of looming bankruptcy and war.

Delta Air Lines, America's third carrier, unveiled plans to win back customers from low-cost airlines with the launch of its own no-frills service, Song. Song will begin serving east-coast routes in April.

Telesales

Deutsche Telekom is poised to announce the sale of its cable-TV business to a consortium of three private-equity companies for around *euro*2 billion ($2.2 billion). The cash will scarcely dent the German company's heavy debt.

America's Supreme Court ruled that **NextWave Telecom** should regain control of mobile licences—now

worth about $6.5 billion—seized by regulators when the company went bankrupt in 1998. NextWave bought the licences at auction but could not then pay the bill.

South Africa launched a long-awaited privatisation of its state-controlled phone company, **Telkom**. The country's telecoms regulator recommended that the only two bids for a licence to run a second national phone company be rejected, leaving Telkom with monopoly power.

Fair copy

Xerox unexpectedly made a profit in the fourth quarter of 2002, after two years of restructuring that saw a change of chief financial officer and chief executive (twice), the settlement of Securities and Exchange Commission (SEC) charges, renegotiation of bank loans and restatement of five years of accounts. Its shares jumped by 17%.

The SEC filed civil-fraud charges against **KPMG**, one of the big four accounting firms, over its audit of Xerox. The SEC is also charging four individual KPMG staff, including Michael Conway, the audit partner in charge of Xerox.

See article: The next Arthur Andersen?

Sony Corp, the world's largest consumer-electronics company, made a record profit in the fourth quarter of 2002 of ¥125 billion ($1 billion) after healthy sales of games, films and entertainment systems in the run-up to Christmas. However, Sony was downbeat for the future as consumer demand stays in the doldrums.

On its uppers

Cazenove, a blue-blooded City of London stockbroking firm that incorporated only two years ago, was forced to delay an initial public offering because of the continued weakness of stockmarkets. The upper-crust broker had promised a listing by April 2003. It refused to be drawn on any new date for the sale.

Europe's embattled insurance industry was hit by another setback. Germany's **Allianz** was forced to hand over $750m to Fireman's Fund, an American subsidiary, to cover the cost of asbestos-related claims. Meanwhile, tumbling stockmarkets put added strain on precarious capital bases.

Eifuku Master Fund, a $300m Japanese hedge fund, collapsed. Eifuku, which means eternal luck in Japanese, lost nearly everything in a week's trading in January.

See article: Tokyo as a financial centre

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Dealing with Iraq

On the brink of war

Jan 30th 2003
From The Economist print edition

Better together. If necessary, alone

Get article background

THOSE who are forgivably desperate to avert a war try to tell it differently. But the harsh fact to digest this week is that Saddam Hussein has not complied with Resolution 1441, the sombre “final opportunity” offered in November by the Security Council before, it said, he would face “serious consequences” for being in breach of umpteen previous sombre resolutions telling him to give up, and stop seeking, weapons of mass destruction (WMD). On Monday Hans Blix, the UN's chief weapons inspector, told the Security Council that Iraq had not complied; and on Tuesday George Bush told Congress in his annual state-of-the-union speech what this would mean. Barring a last-minute change of heart or regime in Baghdad, and even if need be without new UN authorisation, the American president seems determined to fulfil his promise to disarm Iraq and change its regime by force.

This does not make war inevitable. Mr Hussein thrives on brinkmanship but succumbs to pressure. In November a possible American invasion made him let back the UN inspectors whom he had locked out of Iraq for the previous four years. An imminent American invasion could now tempt him to save his skin by standing down, choosing exile, or giving the inspectors some, or all, of the WMD information and material he has withheld from them so far. In that case, the clock ticking to war will have to be stopped to see whether the capitulation is genuine. But Saddam also has a record of walking over the brink, as he did when he faced an American-led army in Kuwait in 1991. So, though it is not inevitable, an American-led invasion could come within a matter of weeks.

Bush senior did it better

For Bush the younger, this is liable to be a lonelier and riskier war than the one his father led in 1991. Part of this is his own fault. After Iraq invaded Kuwait, the father put a stronger effort into rounding up allies. This time, the son has barely won over American opinion, let alone the opinion of the world. The Americans promise next week to share some of their intelligence with the Security Council. If it is compelling and handled well, that might prove to be enough to sway the council's doubters. But if France, China or Russia look likely to veto a fresh war resolution, Mr Bush seems determined to push on without one, citing 12 years of Iraqi non-compliance with the previous resolutions, plus the danger he says a WMD-armed Iraq could pose to America itself, as all the authority he needs.

Going to war this way is far from ideal. If war is necessary, it would be better under explicit UN authority, commanding the sort of legitimacy that only the Security Council can confer. That is why so many voices, not least American ones, are urging Mr Bush to try harder to talk his allies round, give the inspectors more time, or offer Iraq a “final, final” opportunity to disarm. And if it were indeed the case that extra time and effort, or offering Iraq yet another last chance, could produce consensus, Mr Bush would be wise to heed these voices. But it is probably not the case. For, at bottom, if the Security Council splits it will not be because of a lack of time or a failure of diplomacy. It will be because of a difference of opinion. America and Britain say that if Iraq under its present management got hold of a nuclear or biological bomb, this would be so dangerous that it would be worth going to war to prevent it. Many other governments demur. And it is hard to see how extra time will convert them.

What inspectors can't do

One refrain from Mr Bush's critics has been that the inspections are working, and can continue to work. This is the opposite of what the chief inspector says. Mr Blix told the Security Council that, although Iraq had not obstructed the inspectors' visits, “it appears not to have come to a genuine acceptance, not even today, of the disarmament which was demanded of it.” Far from being “full and complete”, as required, Iraq's latest declaration of WMD activities failed to answer the questions of previous inspectors, such as what had become of Iraq's suspected holdings of VX poison and anthrax (see article). The inspectors, said Mr Blix, were not supposed to play “catch as catch can”; they could verify that Iraq was disarming only if the Iraqis produced their WMD paraphernalia for disposal, or explained just how and when it had been disposed of.

If a few extra weeks of inspections really could heal the rift in the Security Council, Mr Bush would be foolish to obstruct them. The danger is that their continuation will spread false reassurance. If the inspectors draw a blank, the credulous will conclude that Iraq has no WMD material. If they find bits and pieces of proscribed material, people will say that they are achieving their aim. Both conclusions would be false. Inspectors have scoured Iraq before and found nothing, even though defectors have later shown that WMD work was taking place under their noses. And if they did find something? As in the case of the latest find of chemical warheads, the inspectors would have no way of telling whether this was something isolated or, in Mr Blix's words, “the tip of an iceberg”.

In truth, of course, the quarrel over the role of the inspectors is a quarrel about the case for war if everything else fails. This newspaper thinks the case is strong. But it is a more complicated case than the one the senior Bush had to make. In 1991, Iraq had just invaded a neighbour that posed no conceivable threat to it. This put the Arabs on America's side, and Mr Hussein unambiguously on the wrong side of the law. This time, the invasion is a fading memory. His neighbours do not feel threatened while an American army camps on Iraq's border. And the reason for fighting is not to reverse a horror but to prevent a possible future one: Saddam's use in war or terrorism, or for blackmail, of the mass-destroying weapons the Security Council says he is not allowed to have. It is only natural that many people, sooner than face the certainty of war now, prefer to shut their eyes to future danger.

This is all the more so given the many things that could go wrong. It should be no part of anyone's argument for war that this will be a pushover. In fact, it has the potential to be a much bloodier affair than either the Gulf war of 1991 or last year's toppling of the Taliban regime in Afghanistan (see article).

If America wants to remove Saddam by force, it surely has the military power with which to do so. But is Saddam's Iraq a rotten edifice destined to shatter under the first mighty blow? Though possible, it would be unsafe to bank on such an eventuality. No less possible is a sanguinary last stand in the streets of Baghdad, leading to a slaughter of innocents as well as of fighting men. Nor can anybody foretell what impact an American-led occupation of Iraq will have on wider Muslim sentiment. Mr Bush is right to say that ordinary Iraqis will have every practical reason to welcome their liberation from Saddam's hateful regime. But wars impinge on hearts as well as minds; and on the imaginations of outsiders as well as on the participants and victims. It is as well to remember that it was Iraq's humbling during America's 1991 liberation of Kuwait which, by his own testimony, turned Osama bin Laden into a sworn enemy of the United States. How many other bitter hearts will take up arms when an American army storms Baghdad, one of the ancient centres of Arab civilisation?

To such questions there can be no certain answers. Much will depend on the fortunes of war, and the wisdom of policy during the occupation of Iraq that follows. In the face of such uncertainties, America is entitled to ask its allies for their help and understanding, but not to demand it.

If American persuasion and evidence can wring the desired authority out of the Security Council, so much the better. But many friendly governments, weighing both the dangers and their own self-interest, may reach a different conclusion about the balance of risks. In that case, the Americans will still probably have a coalition on their side, one that includes the faithful British but will be smaller than the NATO coalition which, also without the Security Council's authorisation, used force to rescue the Muslims of Kosovo from Slobodan Milosevic. It will not be ideal, but it will be enough.

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AIDS

The other war

Jan 30th 2003
From The Economist print edition

George Bush's pledge of more money to fight AIDS should be welcomed

AP

IN HIS state-of-the-union address, George Bush may have stopped short of declaring war on Saddam Hussein, but he did declare war on an even more insidious (and less controversial) enemy: HIV, the virus which causes AIDS. Mr Bush promised to fight this battle in more than a dozen African countries, as well as parts of the Caribbean, with $15 billion ($10 billion of it new) over the next five years. Congress willing, this will be enough, he argues, to prevent 7m new infections, to treat 2m infected people with anti-retroviral drugs and to care for 10m HIV-infected people and AIDS orphans.

Such largesse has, for the moment, silenced recent criticism that America had not contributed enough to the global struggle against poverty and disease. AIDS is arguably the world's worst health crisis, and Africa is undoubtedly its most hapless victim. More than 29m Africans are now infected with HIV, and the disease kills more Africans than all the continent's wars combined—2.4m last year. It strikes down adults in their productive prime, leaving orphaned children and limping economies in its wake. Until this week, many people were outraged that America had offered only $500m to a “Global Fund to fight AIDS, Tuberculosis and Malaria”, set up in 2001 to take on this microbial axis of evil. Now, Mr Bush says the Fund will receive $1 billion of the new money, with the rest going to private groups and “willing governments” in target countries to diagnose, prevent and treat AIDS.

Cynics may scoff that bankrolling this worthy cause is merely a ploy to win friends at a time when America wants allies but has few firm ones. More malign critics may see it as a tactic to prop up American drug firms, which are worried by African demands at the World Trade Organisation for wider access to generic medicines. We cannot know whether such motives played a part, but it could also be that Mr Bush was persuaded that AIDS is a crisis that craves his attention.

A more important question is how the cash should be spent. There is no shortage of sensible plans. More anti-retroviral drugs are needed, to prevent mothers from infecting their unborn children, and to keep infected people healthier and less infectious. Other, often cheaper drugs are needed to treat associated infections. More investment is needed in medical infrastructure and manpower; without diagnostic equipment to find out who needs them, or medical staff to administer them, drugs do little good. More must also be done to curb the virus's spread. An effective vaccine would be wonderful; meanwhile there should be safe-sex campaigns and efforts to de-stigmatise AIDS, so that more people get tested.

Not too many strings, please

Mr Bush's cash should boost existing efforts, and perhaps inspire other rich countries to stump up more. It is a pity that more has not been promised to the Global Fund, which has valuable expertise in helping poor countries help themselves, but is short of cash. Mr Bush clearly prefers America to decide for itself how American money is spent. Fair enough, but not if too many strings are attached.

Mr Bush has already barred the distribution of American money to organisations deemed to promote abortion, which has hobbled a number of reproductive-health charities. Some American officials have even said that they disapprove of condoms, perhaps the single most important barrier to the spread of AIDS. Mr Bush should ignore them. America's concerns about patents are valid, but some exceptions should be made for the use of copycat AIDS drugs in poor countries.

Even with unlimited resources, the war on AIDS would be tough. The African countries on Mr Bush's list are among the better-governed ones, but most are hard to work in, and Côte d'Ivoire is in chaos. This is not a fight, however, that can be shirked. AIDS has helped to create “failed states” in Africa, which could one day harbour terrorists. More importantly, there are millions of lives to be saved, and America has the money to save them. So do others, mind you.

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Computers and chess

Not so smart

Jan 30th 2003
From The Economist print edition

Comparing human and computer chess-players says little about intelligence

Corbis

THE idea that chess-playing skill is a proxy for machine intelligence is not new. It goes back as far as 1770, when Wolfgang von Kempelen, a Hungarian inventor, unveiled a wooden, clockwork-powered mannekin at the court of Maria Theresa, Empress of Austria-Hungary. This machine, known as the Turk because of its exotic costume, could play chess, moving the pieces with a mechanical arm and defeating even the best human players. It was, of course, a trick—a hidden human operator controlled the automaton's movements—but some observers equated its chess prowess with intelligence.

This notion was revived in the 1950s, when the building of a genuine chess-playing machine was seen by artificial-intelligence researchers as a stepping-stone towards a general theory of machine intelligence. Claude Shannon, a computer scientist, explained why, in an article published in 1950. “The problem is sharply defined. It is neither so simple as to be trivial or too difficult for satisfactory solution. And such a machine could be pitted against a human opponent, giving a clear measure of the machine's ability in this kind of reasoning.”

You would have thought that such speculation would have ended in 1997 with the defeat of Garry Kasparov, the world's top-ranked chess player, by Deep Blue, a computer built by researchers at IBM. Mr Kasparov made much of the notion that he was defending humanity's honour; *Newsweek* called the contest “the brain's last stand”. In fact, it was no such thing. Far from being a step towards machine intelligence, as theorists had hoped in the 1950s, building a world-class chess computer has proved to be surprisingly easy, thanks to the plummeting price and soaring power of computer chips. Rather than emulating the complex thought-processes of human players, computers simply resort to mindless number-crunching to decide what move to make. Throw enough microchips at the problem—Deep Blue contained hundreds of specialist chess-analysis chips—and it does indeed become trivial. Quantity, as Mr Kasparov noted after his defeat, had become quality. He demanded a rematch, but IBM said no.

Now Mr Kasparov has, in a sense, belatedly got what he asked for. Still the world's top-ranked player, he is playing a six-game match in New York against today's top computer program, Deep Junior. Inevitably, there has been renewed speculation about the implications for mankind if the best human player loses again to a computer. This is silly, for two reasons.

First, Deep Blue, Deep Junior and their sort are human creations. The real victors, if Mr Kasparov loses again, will not be machines, but the humans who designed and built them. Since machines are—so far, at least—unable to design and build improved versions of themselves, there is no need to worry about the world being taken over by chess-mad robots.

The second, more important reason is that we now know that chess-playing skill does not, in fact, equal intelligence. Nobody minds that cars can outrun the fastest athlete, or that cranes can lift heavier weights than the strongest man. Playing chess, it turns out, falls into the same category, despite its outward complexity: it is possible to get a dumb machine to do it better than any human. The equation of chess-playing with intelligence is centuries old, but it is time to lay it to rest.

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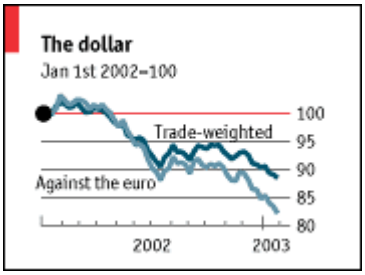
Currencies

Downhill dollar

Jan 30th 2003
From The Economist print edition

Is the slow but steady slide in the dollar good or bad for the world economy?



THE long-expected decline in the dollar is now well under way. For years economists have predicted that America's huge current-account deficit would eventually cause its currency to plunge. So far the dollar's slide has been fairly gradual: it is down by 13% in trade-weighted terms over the past year, though it has dropped by almost twice as much against the euro since its 2001 peak. As the decline seemed to pick up speed this week, John Snow, George Bush's nominee for treasury secretary, declared that he favours a "strong dollar policy". That was surely the wrong answer, even leaving aside the debatable issue of whether cabinet secretaries can influence the level of exchange rates. A weaker, not a stronger dollar is what the world needs now—so long as policymakers elsewhere respond appropriately.

America promoted a strong dollar throughout the 1990s, when inflation was still thought to be the main enemy. Today it makes less sense. Even after its recent slide, the dollar seems overvalued. Moreover, with ample spare capacity in America, deflation looks a bigger risk than inflation. As measured by the GDP deflator, inflation is at a 50-year low. A weaker dollar (so long as the decline does not turn into a crash) would bolster America's economy and, by lifting import prices, prevent inflation falling too far.

More important, it could also help to steady the world economy, which has rarely looked so unbalanced. It has for too long been too dependent on American consumer spending; America, in turn, has been overly reliant on foreign capital inflows, so as to finance its record current-account deficit. According to Morgan Stanley, since 1995 the United States has accounted for nearly two-thirds of the total increase in world GDP, double its share of actual global output. But the American engine is now more sluggish, and with interest rates at 1.25% the Fed has little fuel left in the tank. In these circumstances, a cheaper dollar will helpfully loosen overall monetary conditions, and also shift the composition of demand from consumer spending towards exports.

What about the European economies, though? A stronger euro will clearly squeeze their exports, one of the few sources of growth in the region over the past year (domestic demand has barely risen). However, a stronger euro will also help to pull down inflation and so should allow the European Central Bank (ECB) to cut its interest rates, now at 2.75%, more quickly—exactly what is needed to stimulate domestic demand. Without the luxury of a cheap currency to fall back on, there might also be more pressure on Europe's recalcitrant governments to push ahead with structural reforms.

By one rule of thumb, a 5% rise in the trade-weighted euro has roughly the same impact on inflation, after a year, as a one percentage-point rise in interest rates. The rise in the euro has thus more than offset the half-point cut in interest rates made in December. The conclusion is clear: the ECB should cut interest rates at its next meeting on February 6th. The cost of delay could be recession and deflationary pressure.

As for the third big economy, Japan cannot respond to a weaker dollar by cutting interest rates: they are already zero. Indeed, Japan probably also needs a cheaper currency, which is one of the sole instruments available to lift output and prices. But if the Bank of Japan tries to hold down the yen, the euro could rise by even more. The less the yen rises against the dollar, the more the euro may need to rise to correct the dollar's overvaluation. Another 20% rise in the euro against the dollar—on top of what has already occurred—is not unthinkable. Hardly what a doctor would prescribe for Europe's sickly economies, especially Germany, which looks at even greater risk of deflation than the United States. The right preventive cure is for the ECB to cut rates now.

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Italy

Berlusconi rebuffed

Jan 30th 2003
From The Economist print edition

Bad for the prime minister, good for Italy

Getty

THE news that the prime minister of a large democracy had been thwarted in his efforts to move a trial from one city to another would not normally be a cause for cheer. But this democracy, Italy, has not been normal for a long time, and has recently seemed to be lurching towards ever greater abnormality. Evidence of that is not so much that the trial in question was that of the prime minister himself, Silvio Berlusconi, who is accused of bribing judges, as that his efforts to move it were made under a law pushed through parliament last November by his own government. This allows defendants to ask the country's highest court to move their trials if there is a “legitimate suspicion” that the judges may be prejudiced. Had Mr Berlusconi succeeded in this instance, his trial would have had to be restarted from scratch, probably leading to an acquittal under the statute of limitations, which has already helped the prime minister in other cases (see article).

The ruling thus strikes a much-needed blow for the independence of the judiciary. Important in any country, this independence is particularly important in Italy, where business and politics have long been intimately, and often corruptly, entwined. Since Mr Berlusconi came to office in 2001, at the head of a government that commands a strong majority in both houses of parliament, the entwining has become a concentration: the prime minister is the country's richest man, a media tycoon who controls either directly or indirectly almost all Italian television. Rather than rid himself of his conflicts of interest, he has devoted much of his energy to a campaign against the judiciary, which he considers biased against him.

No doubt Italy's judiciary harbours some left-wingers, probably even some rotten eggs. No doubt it would benefit from reform. But so would the pension system, the labour market, indeed the economy as a whole, which the EU commissioner for competition, Mario Monti, describes as being in a state of slow asphyxiation. No wonder Italy, the world's sixth-biggest economy, ranks around 35th or 41st in various competitiveness tables. Mr Berlusconi, though, has yet to show himself serious about economic reform. Resorting to one-off remedies such as tax amnesties and debt swaps—perhaps even a redefinition of the growth rate—he seems keener to make things look better than to carry out structural change.

The one big change that does appeal to him is a constitutional one: he has said that he would like Italy to adopt a presidential system similar to France's, with a president directly elected by the people, or, failing that, he would settle for a strengthening of the prime minister's powers. Good arguments can be adduced for such arrangements, but only in a country where the branches of government are clearly separate and independent, and where there are firm controls on the exercise of power. That description does not fit Italy.

Italians swing between extreme suspicion of their rulers and extreme confidence in the abilities of one man. The faith placed in Gianni Agnelli, whose success in building up his family's company was often equated to success in building up the national interest, was excessive (see article), though not nearly as disastrous as the faith earlier placed in Benito Mussolini. The reaction to Mussolini's fascist dictatorship led to an intense suspicion of personal power, overtaken in the 1990s, after the *tangentopoli* bribery scandals, by a sweeping antipathy towards almost all conventional politicians. Strangely, the beneficiary of that antipathy has been Mr Berlusconi, in whom many voters seem to have uncritical confidence, even when Mafia turncoats accuse him in court of having had mobster connections, as happened last month.

This week's ruling is unlikely to do the prime minister much immediate damage. He now seeks

parliamentary immunity, and the voters seem largely indifferent to his battles with the judges. But it is clear at least that the country's top court is not cowed. To that extent Italy is still normal.

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Letters

Jan 30th 2003
From The Economist print edition

The Economist, 25 St James's Street, London SW1A 1HG
FAX: 020 7839 2968 E-MAIL: letters@economist.com

Oracle speaks

SIR – In your recent article about me (Face value, January 4th), despite a reasonably accurate summary of Oracle's data-centric philosophy with regards to integrating business software, you recycle a number of misunderstandings about our e-business suite of applications. The suggestion that "a single integrated software architecture may be perfect for [firms as centralised as] Oracle", but not for companies that are more operationally devolved is quite wrong. The point of running applications designed and built around a single shared database is to provide a single place where managers can easily find and access accurate up-to-date information about the state of their business. The one-database approach puts the information in one place; it does not dictate decisions or the degree of autonomy given to managers in local markets.

The assertion that buying what is known as "best-of-breed" software from a mix of vendors, as opposed to an integrated suite, is a question of cost versus competitive advantage is even farther from the truth. However good an individual application may be, its usefulness is fatally undermined because each separate application requires its own separate database. Companies that adopt the best-of-breed approach end up with their information fragmented into hundreds of separate databases. This makes it impossible for managers to find the information they need to run their businesses.

The biggest promoters of best-of-breed are the systems integrators who are paid huge sums to stitch this stuff together. For the customer, it is a constant treadmill of expensive and disruptive upgrades. For the integrator, it is the gift that keeps on giving. Twenty years of best-of-breed computer systems and constantly increasing IT budgets have failed to deliver the promised efficiencies. It is little wonder that companies are cutting investment in technology.

In the end, the only judgment that matters is that of the market. In America's Cup sailing, our race is over. The application-software race goes on. A suite of applications integrated around a single database provides better information, but only if companies are willing to spend less on systems integration. In this economic climate they might.

Larry Ellison
Chairman and chief executive
Oracle Corporation
Redwood Shores, California

London on the move

SIR – After a tough struggle to get into work on London Underground, many of us acquire certainty that the way to deal with the capital's intolerable public services is to bring in a strong man and give him the powers to get on with the job. Only not the present mayor: he is not up to it ("Rudy! Rudy!"). Better have someone who has not actually been elected to the job. Smack of firm government. Something must be done.

The difference between you and us is that we express this blathering nonsense in the pub at lunch-time: you put it in a leader ("The best and worst of places", January 11th). Had you been more reflective and truer to your principles, you would have said rather that what London actually needs is somewhat less government, considerably more investment in its transport infrastructure and a sorting out of the public-service unions.

None of these requires the mayor of London to have more powers, only the political will combined with a capacity to build coalitions with other layers of government. Judge for yourself if Ken Livingstone—whose re-election is financially dependent on the public-sector unions—has those qualities, but, whatever you do, do not imagine that he needs more powers.

Daniel Moylan
Deputy leader of Kensington and Chelsea Council
London

SIR – Crowded, yes. Dirty, yes. Badly ruled, ditto. Fortunately it is within the powers of Westminster to change long-suffering Londoners' misfortunes at a stroke by dusting off the Ottawa/Canberra option. Were central government moved, say to Coventry, three things among many would happen. The city's congestion nightmare would ease at a stroke, much valuable property would be freed for the sort of things that London does best and an entire tier of competition to misgovern the city would be eliminated.

Chris Maynard
London

Losing their religion

SIR – Your article on abortion repeats what is becoming a staple for *The Economist*: that the "continued importance of religion in American life" is part of the reason for explaining differences between the United States and Europe ("The war that never ends", January 18th). It suits both religious leaders in America and European commentators to play up the role of religion but the data are far from conclusive. Americans often tell pollsters that they are more religious than they really are. The number of Americans who never or rarely visit a church has grown steadily over the past 30 years. Whether measured by attendance at mass, vocations or giving, America's largest Christian organisation by far—the Catholic church—is in a state of crisis. Like many Europeans, you risk being seduced by what is (for you) the exotic nature of Christian fundamentalism into believing that it is something other than a minority preference in America, and one whose number of adherents is almost certainly in decline.

You are similarly credulous when you say that America is relatively "conservative about sex". Certainly, some American politicians are censorious about some sexual issues and they tend to get a hearing that their equivalents might not get in Europe. However, if you believe that in their sexual preferences, age of first sexual experience, number of sexual partners, purchase of sexually explicit videos or other sex aids, and openness to sexual themes in popular culture, Americans are more conservative than Europeans or anyone else, you have discovered something that has eluded all researchers who have gone before, and have not spent much time on these shores.

Michael Elliott
Bronxville, New York

Conference call

SIR – Although we are pleased that you cover the work of our Commission on Public and Private Enterprise, you describe the Conference Board as a "business lobby group" ("The way we govern now", January 11th). We are a not-for-profit organisation specifically prohibited from lobbying. Our work is focused on research and education to improve business performance and business's contribution to society.

Richard Cavanagh
President and CEO
The Conference Board
New York

It's just not cricket

SIR – Your suggestion that Robert Mugabe and Saddam Hussein be exiled together is excellent ("In praise of exile", January 18th). Even better is your idea that Mr Mugabe could then lecture Mr Hussein on the intricacies of cricket. Being South African by birth, I naturally love cricket. My Canadian wife, having endured years of explanations of the noble game, states flatly that your proposal would be a fitting punishment.

Charles Poulton
Montreal

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Dealing with Iraq

Days of reckoning

Jan 30th 2003
From The Economist print edition

EPA

Time for Iraq to disarm peacefully is fast running out

Get article background

WHATEVER doubts others, including some of America's close allies, may still have about the wisdom of attempting to strip Saddam Hussein of his weapons of mass destruction by force, few can doubt that for Iraq the “days of reckoning” are now few. George Bush, who used the phrase in his state-of-the-union address on Tuesday, has not wavered in his determination to see the job done, with or without support from the United Nations Security Council. And now the “logic of war”—a gathering presumption of and momentum for action—is also starting to build up outside the Bush administration. So too, however, is the list of potential casualties if the intense Iraq diplomacy of recent months goes awry.

On January 27th Hans Blix, the UN's chief weapons inspector, scotched the chief wait-and-see argument of France, Russia and others—that inspections were working, and that Iraq understood the imperative to disarm (see article). That was enough for Britain's government, closest to America's on this issue from the start, to toughen its diplomatic language. It called Iraq's failure to co-operate a further “material breach” of its obligations—behaviour that, according to Resolution 1441, which was passed by the Security Council last November, should bring about “serious consequences”.

Others still have their doubts. Mindful of these and of the desirability of garnering as much international support as possible for America's determination to face down Iraq, Mr Bush announced that on February 5th his secretary of state, Colin Powell, will lay before the Security Council more of America's own intelligence about Iraq's concealed weapons. But, since such evidence is likely to be piecemeal, whether it will be convincing enough for the doubters will in part depend on how much or how little they wish to be convinced. That America is anyway now preparing to present more of the information it has suggests that it feels the time for diplomacy is coming to an end.

Mr Bush and Britain's Tony Blair will meet at Camp David on January 31st to discuss not only the timing of any possible military action, but also whether to try first for another Security Council resolution to authorise it, or to proceed without one. A new resolution would undoubtedly help both men with public opinion, which in their own countries and around the world is largely hostile to any use of force against Iraq that lacks such UN cover. It would also help Mr Bush to build up a broader and more effective military and diplomatic coalition. The more governments that gather around America's tent, if not inside it, before a war (the reasoning goes), the less likely they will be to squabble over the rebuilding of Iraq

afterwards.

Until recently the council's formal blessing for, or even its mere acquiescence in, the use of force had seemed a fast-receding possibility. A bad-tempered exchange between America and France, which had France's foreign minister hinting that his government would use its veto in the council, and America's defence secretary, Donald Rumsfeld, dismissing France and Germany (a council member without a veto, but one that has ruled out supporting military action under any conditions) as the “old Europe”, seemed to indicate an unbridgeable rift. Yet the UN game, though nearing its climax, is not quite over yet.

Even before Mr Blix's report, there were growing signs of impatience, even among would-be peace-preservers, at Mr Hussein's failure to take advantage of the “final opportunity” to disarm that the council had offered him. Meeting in Istanbul on January 23rd, the foreign ministers of Turkey, Jordan, Saudi Arabia, Egypt, Syria (also currently a non-voting member of the Security Council) and Iran issued a blunt warning to Iraq to comply with the council's disarmament demand or face the consequences. “The strike is coming,” said Egypt's president, Hosni Mubarak, in a later newspaper interview, and only Mr Hussein could avert it—a theme that has started to echo more widely through the Arab press.

Turkey, in particular, is essential to America's war plans, which would be greatly complicated without the ability to send troops into Iraq from the north as well as the south. Although still holding out for more economic aid and more assurances that Iraq's Kurds will not be allowed to split away from it, and so intensify Turkey's problem with its own Kurdish minority, the government recently agreed to allow American military technicians to start surveying some of Turkey's military bases and ports for their possible use in a war. And this week the Turkish army announced that, as a “precautionary measure”, it was building up military equipment near the border with Iraq.

Yet, like many governments, Turkey's would prefer to see any military action authorised by the Security Council first. Drafts of a follow-up resolution have been in preparation by American and British diplomats for some time. Whether one is ever tabled depends on whether the three other permanent members of the council—China, France and Russia—can be persuaded at least not to veto it.

Russia has huge oil interests to protect in Iraq, under contracts, some of them signed very recently, with Mr Hussein's regime, and wants to recover $8 billion or more in Soviet-era debts. It is therefore less concerned at Iraq's misbehaviour, argue some American and European officials, than it is about receiving American assurances before any council vote that its commercial interests will be taken into account. Yet this week President Vladimir Putin for the first time publicly warned Iraq that Russia's position would toughen if it failed to co-operate with the inspectors. And if Russia were to acquiesce in military action, China probably would too.

But what of France? Despite a tendency for commentators on both sides of the Atlantic to spy a damaging Europe-America split over Iraq, in fact it is Europe that is most deeply divided. The leaders of eight countries, including Britain, Spain, Denmark, Portugal, Italy, Hungary and Poland (both in NATO and soon to be in the EU) have written jointly to European newspapers urging solidarity with America against Iraq. And even France, though President Jacques Chirac seems to share the populist tendencies of Germany's Gerhard Schröder, has not ruled out joining military action in the right circumstances.

What might those be? Convincing public evidence of Iraqi transgressions would help, though France's own security services have plenty of private information of their own about that. So far, France has attempted to portray itself as the defender of both the Security Council (against Mr Bush's unilateralist tendencies) and of a sane, preferably collective, European voice in it (unlike Britain's, so the French argue).

So long as that could be done without doing permanent damage to relations either with America or within Europe, France could sustain its pirouette on the world stage to some applause. But unless Iraq's regime dramatically changes its behaviour and starts giving up its weapons rather than hiding them, France will soon have to choose whether or not to go along with tougher action.

It is one thing to press America to work through the Security Council, which it has so far done, and quite another to seek to widen the rifts within the council over Iraq. That would not only damage the council's credibility, but would also set back France's own hopes for a more concerted European foreign policy. In seeking to isolate America, France would run the risk of damaging its friends and isolating itself. That would make the peaceable disarming of Iraq an even more remote possibility than it now appears.

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Iraq's weapons

Rabbit or duck?

Jan 30th 2003
From The Economist print edition

Assessing the evidence against Saddam Hussein

Get article background

LUDWIG WITTGENSTEIN once used an ambiguous line-drawing to show how perceptions are informed by prejudices and circumstance: the drawing looks like a rabbit to some people and a duck to others, but never both at the same time. The reports delivered by United Nations weapons inspectors to the Security Council, on January 27th, have been received in a similarly contradictory way. To those sceptical about America's case for war, the evidence presented was inconclusive; to those persuaded, it proved that Iraq is clinging on to illegal weapons. Are these interpretations of this week's reports, and the rest of the available evidence, equally valid?

Reuters

Morning, gentlemen: anyone hiding anything?

Both Hans Blix, head of UNMOVIC (which is investigating Iraq's biological, chemical and missile capabilities), and Mohamed ElBaradei, of the International Atomic Energy Agency (which is doing the nuclear snooping) had enough nice things to say about Iraq to sustain the peacemongers. Mr Blix reported that Iraq has co-operated “rather well” on the mechanics of inspection: his staff have been admitted to all the places they have visited, almost always promptly. This contrasts with the absurd shenanigans of the 1990s, when inspectors were frequently turned away from suspect sites or kept waiting while sensitive material was removed. (Mr Blix did mention some exceptions, such as Iraq's refusal to permit the use of a U-2 spy plane except under onerous conditions.)

For his part, Mr ElBaradei reported that his team had “to date found no evidence that Iraq has revived its nuclear-weapons programme” since it was dismantled during the 1990s. Britain and America allege that Iraq has tried to obtain aluminium tubes for use in the enrichment of uranium; George Bush repeated the accusation in his state-of-the-union address. The Iraqis say the tubes were for use in conventional missile technology. Mr ElBaradei said the matter was still being investigated, and that the procurement of the tubes for the stated purpose would also contravene UN resolutions, but that Iraq's explanation was plausible. There are other open questions—such as Iraq's alleged recent attempts to import uranium—but in general Mr ElBaradei was relatively upbeat.

Since they began their work in November, the inspectors have not found anything startling enough to be considered (in the popular parlance) a “smoking gun”, at least by Mr Bush's critics. There have been incriminating discoveries: inspectors found 12 empty chemical rocket warheads at a storage depot, which Mr Blix said could be the “tip of a submerged iceberg” (the Iraqis have since found four more), besides a

precursor for mustard gas in a laboratory. Mr Blix reported that Iraq had tested and deployed two types of missile beyond the maximum permitted range of 150km: “These missiles might well represent *prima facie* cases of proscribed systems”, he said. They could also boost Saddam Hussein's ability to strike Kuwait. But visits to sites fingered in Anglo-American dossiers have turned up nothing—not entirely surprisingly, as the British government has pointed out, in light of the advance warning given to Mr Hussein.

However, as one catchy formulation has it, absence of evidence is not the same thing as evidence of absence. It is not the inspectors' job (as Mr Bush puts it) to “conduct a scavenger hunt for hidden materials across a country the size of California”: they are supposed to verify disarmament, not compel it. And to anyone who remembers Iraq's duplicity towards inspectors throughout the 1990s, the fact that the current teams have not stumbled upon, say, a stash of Scud missiles is also not entirely surprising.

Ancient history

Despite Iraq's machinations during those years, Unscom (the inspection body that preceded UNMOVIC) patiently accumulated findings about Iraq's weapons programmes. These findings, several of which were cited by Mr Blix, still constitute the most damning evidence against Mr Hussein. Unscom judged that Iraq had failed to account for large quantities of chemical and biological agents, ingredients and weapons, all of which it is known to have imported or produced. Iraq claims either to have lost or destroyed the relevant materials and records of their fates.

For instance, Iraq says that after the Gulf war of 1991 it lost 550 shells filled with mustard gas. Large quantities of bacterial growth media (enough, Mr Blix said, to produce about 5,000 litres of concentrated anthrax) and 6,500 chemical bombs (which might contain around 1,000 tonnes of chemical agents) are also unaccounted for.

The problem with this sort of evidence is that, unlike the discovery of a cache of missiles, it is both abstruse and circumstantial: it proves what Iraq could have done, not what it verifiably has done. What is more, to refute it Iraq seems to be obliged to prove a negative, which, to a layman, seems a little tricky.

AP

Inspectors in the dark

In fact, there ought to be documents and people who could help fill in these gaps. In the past, relevant documents have turned up after Iraq claimed that they did not exist. Iraq's failure to furnish Mr Blix's team with the documents it has requested, and the absence of other forms of active co-operation, earned his strong censure. The country, in Mr Blix's view, “appears not to have come to a genuine acceptance, not even today, of the disarmament that was demanded of it.” He also mentioned, in this context, the suspicious discovery of 3,000 relevant pages in a private home, and Iraq's failure to provide an adequate list of scientists who might help with the inspectors' inquiries. He complained that the 12,000-page Iraqi declaration does not seem to contain new evidence that would eliminate outstanding questions.

Given more time, will Messrs Blix and ElBaradei find anything more dramatic? During the 1990s, inspectors did find and destroy a lot of noxious material and equipment. However, many of the most important revelations, such as Iraq's 1995 admission that it had produced VX, a nerve gas, were made after high-level Iraqi defections. (Iraq has since claimed that it produced only poor-quality VX; that it was never “weaponised”; and that it has all been destroyed. Mr Blix said there were “indications” that Iraq's VX had indeed been weaponised.)

So, if Iraq is concealing something nasty, perhaps only a defector will provide conclusive proof. It seems unlikely that Iraqi scientists will spill the beans in interviews with the inspectors: so far, none has even consented, or been allowed, to talk without a minder. Mr Bush claims that Mr Hussein had ordered Iraqi scientists who co-operate with the inspectors to be killed, along with their families, and that Iraqi intelligence officers are posing as scientists. A timely, clandestine defection would be much more productive.

Trust me

It is possible that Mr Bush may yet produce definitive proof of his own. There are credible reasons—protection of sources, the need to keep Iraq's weapons in known places in advance of a war—why America is reticent to disclose its intelligence. Still, some of it has already been passed to the inspectors; and Mr Bush says that on February 5th Colin Powell, his secretary of state, will tell the Security Council more of what America knows about Iraq's weapons programs, efforts to conceal them and its links to terrorism.

This announcement has heightened expectations that Mr Bush is planning an “Adlai Stevenson moment” (Stevenson was the American ambassador to the UN who, in a *coup de théâtre* in 1962, produced photographic evidence of Soviet missiles in Cuba). Among other things, Britain and America have alleged that Iraq has developed mobile bioweapons laboratories: corroboration would be useful. But it will be surprising if America's intelligence is as starkly conclusive as Stevenson's: intelligence, like this week's reports, can often support multiple interpretations (and missiles show up better from satellites than anthrax does).

So can Mr Hussein's history and personality: some analysts argue that the Iran-Iraq war and America's decision not to advance on Baghdad in 1991 will have convinced him of the absolute need to keep his chemical and biological weapons, while others maintain that the survival of his regime will take precedence over anything else. There is also disagreement about whether any remaining stocks of agents produced before 1991 would have become unusable.

In short, it is possible to view much of the evidence against Mr Hussein in more than one light. But, given his proven record of making, hiding and using heinous weapons, should he really be given the benefit of so very many doubts?

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The shape of war

Preparing for the worst

Jan 30th 2003
From The Economist print edition

EPA

An American attack on Iraq would be a new kind of war, with new risks and perils

Get article background

"WHEN", asks Henry V after the battle of Agincourt, "was ever known so great and little loss/On one part and on the other?" In Shakespeare's play, the French lose 10,000 men and the English only a couple of dozen. In the Gulf war of 1991, America's military supremacy produced a similarly astonishing ratio of casualties. Optimistic American military analysts are now expecting a repeat performance. Iraq, they argue, was easily defeated in 1991; since then it has become weaker while America has become even stronger; therefore a war with Iraq this year will (in one fashionable formulation) be a "cakewalk". Will it?

Maybe. America's military hardware—in particular, its surveillance equipment, munitions and means of delivering them—has evolved dramatically in the decade since the Gulf war. Its military superiority is now greater than any power's for many centuries. Meanwhile, the strength of Iraq's army, measured in tanks, artillery and troops, has declined by more than half. Its air force—almost irrelevant in 1991—is now even punier. Its navy is virtually non-existent. Sanctions have deprived the country of spare parts, and British and American aircraft patrolling the "no-fly" zones over northern and southern Iraq have (with special vigour recently) battered its air defences. In 1991, many regular Iraqi troops surrendered after firing a few token shots at their better equipped and trained adversaries. The memory of what happened to those who did not will encourage a similar response this time.

On the other hand, the Gulf war taught Saddam Hussein important lessons. The devastating results of trying to fight America and its allies as if they were Iran or Kuwait—in open terrain, where Iraqi forces were crushed by air power and artillery—will encourage Mr Hussein to try to lure the invaders into Iraq's cities. And America's conventional strength will encourage him to use other, unconventional methods. In 1991, Iraq did not use chemical or biological weapons. This time, the fact that the war will be explicitly directed towards removing his regime could also remove any inhibitions Mr Hussein has about using them. Before the Gulf war, he also refrained from pre-emptively attacking allied troops or other countries, which might have made the war much messier. This time, he may not.

Taking these unconventional and so-called "asymmetric" factors into account, says Michael O'Hanlon of the Brookings Institution, there are (for America) "more negatives than positives" in a comparison of the 1991 war with a possible one in 2003. Moreover, the putative conflict would take place in the new atmosphere of the war on terrorism and swelling anti-Americanism in parts of the Arab world, fortified by images of Iraqi casualties broadcast by the al-Jazeera TV network. In that sense, America risks becoming its own worst enemy. With this broader perspective, deposing Mr Hussein begins to look a much more

hazardous enterprise.

One of the factors widely assumed to restrict American options is the climate. But like the winter that doomsayers predicted would wreck the campaign in Afghanistan, the Iraqi summer is not quite the showstopper it is reputed to be. After all, in the second world war Montgomery's “Desert Rats” and Rommel's Afrika Korps fought through the north African summer. American forces, under General Tommy Franks, could do the same in Iraq if necessary. Much of the fighting could be done at night, when America would have an even greater technological advantage. American troops would be wearing suits to protect them from chemical and biological weapons, which would add to their discomfort; but they would not have to wear them all the time. Fighting in the summer would be at least as difficult for the Iraqis.

All the same, the optimum time for George Bush to order an attack would be sooner rather than later. American public opinion remains favourable, but only narrowly. Americans do not want Mr Bush to act alone; but the goodwill of other countries, which helped to secure a unanimous United Nations Security Council resolution in November, could fragment even further. Keeping the American forces that are being assembled in the Gulf on station will be enormously expensive. And Mr Bush is unlikely to want an Iraqi war to interfere with his re-election campaign. All this argues for a start to hostilities—always assuming a *casus belli* has materialised—fairly soon. The end of February or beginning of March, after the climax of the *Hajj* pilgrimage, is the best guess.

If there is a war, the exact battle plan, and how long it will take to assemble the forces American military planners deem necessary, will partly depend on the co-operation of other countries in the region—in particular, what privileges Saudi Arabia and Turkey grant America in terms of both air space and bases. America could defeat Iraq without their help. But without the use of Saudi bases, bombing missions will be less economical. And getting troops on the ground in northern Iraq, and thus opening another front, will be much harder without Turkey's hospitality. (A second UN resolution, authorising war, would ease anxiety in both countries.)

Likewise, General Franks could easily do without active military help from other countries; but it would be better, for political cover, if they joined in. Britain despatched paratroopers and the descendants of the Desert Rats last week, and Australia has made a smaller commitment. Other countries may also weigh in.

Rumours of war

These uncertainties are one reason to treat with scepticism the war plans that have purportedly been leaking out of the Pentagon over the last few months. These might be designed to intimidate and confuse the Iraqi leaders. Still, for what they are worth, the leaks suggest a debate among American military men and the Bush administration about how large a force ought to be amassed before an attack begins.

An Iraqi war would certainly involve a heavier American ground presence than the Afghan campaign, in which America largely relied on air power, special forces and local allies to defeat the Taliban and al-Qaeda. (In Iraq, because of the risk that the country might fracture and become ungovernable, the Pentagon may be reluctant to see Kurdish or Shia forces make dramatic gains.) America is likely to have up to 250,000 troops in the region eventually; but hostilities may start before some of them arrive, partly to avoid creating a huge concentration of forces that might become an easy target. Ken Pollack, also of the Brookings Institution, thinks such a “rolling start” would be perilous. Better, he thinks, to amass an imposing force, which will increase the chances that Iraq capitulates without a fight, and allow General Franks to respond to any contingencies or counter-attacks.

Amid all the propaganda and conjecture, some probable elements of an American campaign can be identified. It will begin with an intense aerial bombardment. In the Gulf war, fewer than 10% of the munitions dropped were precision-guided; this time, partly because of the development of a new type of satellite-guided smart bomb, the so-called JDAM that can be used in all weathers, a large majority of them will be. More American

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aircraft can now carry smart bombs, and more targets can be struck on each sortie. (Other new weapons, such as a bomb designed to short-circuit computer systems, may also see action; see article.)

America's surveillance capabilities have dramatically improved, too. For instance, unmanned aerial vehicles (UAVs), such as the Predator, can now feed instantaneous surveillance data to commanders and pilots. Special-forces "spotters", used on the ground in Afghanistan to pass on the co-ordinates of targets to pilots, will be deployed again.

Among the first targets will be Iraq's residual air defences, plus command-and-control and communications facilities. Sites in western Iraq that might be used for storing or launching any Scud missiles Iraq may still possess (as well as any weaponised drones it may have developed), will also be a priority. Dan Goure—now a military analyst at the Lexington Institute, but in 1991 a Pentagon official involved in the hapless effort to find Iraq's Scuds—expects much greater success on this front in 2003.

Franks, the man in charge

James Roche, secretary of the American air force, says that this phase of a war is likely to be much shorter than the long air campaign of 1991. Limited ground operations—such as the use of airborne troops in northern Iraq to protect the Kurds and to prevent friction between Kurdish forces and Turkey—could begin almost simultaneously. Other sites that could be seized speedily include Iraqi air bases and oilfields. Amphibious landings by marines in southern Iraq could follow. American armoured divisions in Kuwait will then drive north towards Baghdad. This advance is likely to be much more direct than Norman Schwarzkopf's disguised "left hook" in the Gulf war. Close air support could ensure that American forces encounter few serious obstacles, apart from the Euphrates river, on their way to the capital.

The quality of mercy

At the time, the 1991 Gulf war seemed to announce a new species of warfare. In retrospect, it can be seen to have followed a traditional pattern: a massive ground force was assembled, then sent into action after a prolonged bombardment. By contrast, a new war with Iraq is likely to be truly original in its speed and tactics. One of its original elements is likely to be the restraint with which America chooses its targets.

A massive show of force will help to precipitate a quick Iraqi surrender, and demonstrate America's power to other potential adversaries. But Mr Bush will be anxious not to create new ones, or provide al-Qaeda with new recruits. In his state-of-the-union message he vowed to spare "in every way we can the innocent", and talked of "liberation". Both he and Mr Hussein know the propaganda value of mishaps such as the bombing, in 1991, of a Baghdad air-raid shelter that was crammed with women and children. The need to govern Iraq after a war (multilaterally or otherwise) will make America especially keen not to alienate its people, or to destroy parts of the infrastructure upon which civilians rely. Mr Roche agrees with Kenneth Roth, of Human Rights Watch, that the increasing accuracy of America's weapons carries an increased expectation that it will avoid collateral damage. In Iraq, the duty to do so is likely to be scrupulously observed.

This sensitivity may even embrace regular Iraqi troops. Clausewitz maintained that the main aim of war was to destroy the enemy's forces; in this case, American strategy is likely to be closer to that of Sun Tzu, an ancient Chinese theorist who argued that "those skilled in war subdue the enemy's army without battle. They capture his cities without assaulting them and overthrow his state without protracted operations." The shock caused by pictures of mangled Iraqi vehicles retreating from Kuwait was one of the reasons the Gulf war ended. This time, American invaders may bypass regular Iraqi soldiers on their way to Baghdad, saving their firepower for Mr Hussein's most loyal forces.

Mr Hussein will doubtless argue that, since America "started" the war, it ought to be held responsible for all resulting casualties, by whomsoever they are inflicted. He could choose to create large refugee flows to slow down an American advance, and place high-value military targets or weapons of mass destruction in civilian areas or close to schools, hospitals and mosques. He may once again use chemical weapons against his own population. "Would he do it and say the Americans did it?" asks Andrew Krepinevich of the Centre for Strategic and Budgetary Assessments. "And whom would al-Jazeera believe?"

American troops will need to prevent intensified repression of the Kurdish and Shia populations under cover of war, the sort of thing that happened during the Kosovo conflict. Conversely, Mr Bush will not want the world to witness bloody reprisals against Mr Hussein's allies. Large numbers of Iraqis, many of whom rely on state food rations, will need to be fed, watered, sheltered and protected from disease. All of this may complicate the central task of dislodging Mr Hussein himself.

What happens when American forces reach Baghdad? Optimists expect a coup (if one has not occurred already). Psychological operations ("psy-ops") have already begun to encourage one. Mr Hussein's top brass are not as loyal to him as were, say, Hitler's, which is why he has developed elaborate counter-coup precautions. If he decides to put his survival above his reputation as an anti-American martyr, there might even be a negotiated settlement, with the Iraqi dictator perhaps retiring to a third country—if any could be found that would take him.

Battling in the streets

Yet American soldiers may have to fight in and through Baghdad and possibly in Tikrit, Mr Hussein's hometown and stronghold, about 100 miles (160km) north of Baghdad on the Tigris. As Mr Pollack says, most besieged cities fall bloodlessly; but, when they do not, terrible fighting tends to ensue. The Iraqi Republican Guard fought hard, if ineffectively, in 1991; and if some of its divisions are withdrawn to Baghdad, they, the "special" Republican Guard and other reliable troops (numbering around 100,000 in all) could offer stiff resistance.

According to Michael Eisenstadt, a military analyst at the Washington Institute for Near East Policy, withdrawing his forces into Baghdad would also carry risks for Mr Hussein. It would increase the chances of a coup and make desertions easier. Baghdad has a large and potentially seditious Shia population. Many of Mr Hussein's most loyal troops, who come from the Tikrit area, will be unfamiliar with the city's byways. Randy Gangle, an expert on urban warfare at the Centre for Emerging Threats and Opportunities, a Marine Corps think-tank, says that training can compensate for the lack of direct experience American troops will have of urban warfare. They would not, says Mr Gangle, behave with the callousness of Russian conscripts in Grozny. They would try to secure key places within the cities and provide escape routes for civilians.

But Mr Gangle also acknowledges that the "rules of engagement" in urban fighting tend to get less restrictive as your own casualties mount, as they did during the battle for Hue, in Vietnam, in 1968. And most of America's technological advantages will be nullified inside a city. Helicopters, essential for swiftly airlifting casualties, remain vulnerable there, as they proved to be in Mogadishu, in Somalia, in 1993. During a long siege, the imperative to fight tactfully could come into conflict with a political need to end the war swiftly.

If the conflict is protracted, instability in other Arab and Muslim countries, including Pakistan, is another big risk. Then there are Iraq's (alleged) biological and chemical weapons. Some analysts envisage their use during a climactic assault on Baghdad. But Mr Hussein might consider it more sensible to use them early, in the misguided hope of persuading Mr Bush to call off the invasion, or with the intent of doing his worst before he loses control of Iraq's airspace and communications. Iraqi officers may ignore orders to launch such a strike, which in any case would probably slow the American advance only a bit; but the effect on Iraqi civilians could be much worse. Mr Roche says the Pentagon is also worried about the inadvertent release of such agents by American bombing.

It is even possible that, before the first laser-guided bomb is dropped, Mr Hussein could make another break with past form, and pre-emptively attack American troops in Kuwait. Or he may strike at Saudi Arabia. Or—if he has the missile capability—he may hit out at Israel, in the hope of igniting a broader conflict. Israel is much better placed to defend itself against Scud attacks than it was in 1991, when the performance of the Patriot missile batteries entrusted with that job was unimpressive (though so too was that of the Scuds). Once a war begins, the presence of American forces in and over Iraq would make it much more difficult for Israel to retaliate; so, if that is what Mr Hussein intends, he might choose to provoke the Israelis in advance. A successful strike against Tel Aviv with chemical or biological agents could have catastrophic consequences.

That is improbable. So is the fear that Iraqi terrorists or their sympathisers may strike directly at America or its friends. But these are still possibilities. A war to oust Mr Hussein will be novel and almost certainly victorious, and in all likelihood swift and triumphant. But America and its allies need to be prepared for anything.

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The state-of-the-union address

Caution to the winds

Jan 30th 2003 | WASHINGTON, DC
From The Economist print edition

The president's address shows him to be a risk-taker on a grand scale

Reuters

THE founding fathers invented the state-of-the-union address as a brief update for members of Congress. George Washington's first effort ran to 850 words, shorter than this article (those were the days).

George Bush's version was more ambitious and complicated. It was an address to the nation at a time when the economy is barely recovering, consumer confidence is at rock bottom and unemployment is up. It was an address to particular groups, such as pensioners worried about health care. It was an address to particular members of Congress in whose hands rests much of the president's domestic agenda.

Perhaps most of all it was a global event: an address to world opinion about Iraq, a statement of resolution to America's allies, even an appeal to Iraqi citizens that they should believe in America's good intentions. Not surprisingly, a speech with so many aims was rather patchy, hitting some targets and missing others.

For Mr Bush himself, mindful of his father's fate, the most important task was to reassure voters that he knows what he is doing on the economy. This is all the more important now that, for the first time, less than half the voters say they trust the president's economic management. In response, Mr Bush produced, in the first half of his speech, a dutiful laundry list.

First on that list was his ambitious $670 billion tax cut. Here, he had the task not only of convincing voters that it is the right stimulus now, but also of persuading Congress to pass it. Not easy. The Republicans who have to steer tax proposals into law (Bill Thomas in the House of Representatives, Chuck Grassley in the Senate) have said there must be compromise. Intriguingly, Mr Bush spent more time on the income-tax bits of his proposal—he would make cuts scheduled for 2004 and 2006 permanent this year—than on the plan to end taxation of dividends. That may mean he will compromise on the dividend bit.

The rest of his domestic agenda was a roster of spending plans: $400 billion for Medicare reform, $1.2 billion for new fuel-cell technology for non-polluting cars, $6 billion for domestic protection against bioterrorism, $10 billion extra for fighting HIV/AIDS. Many other projects were on the small-bore side. But, as Senator Everett Dirksen used to say, “a billion here, a billion there and pretty soon you're talking about real money.”

Despite Mr Bush's insistence that spending restraint plus economic growth will balance the budget, there is little sign that the budget deficit is under control. This week, the Congressional Budget Office forecast

that this year's deficit will be $199 billion and next year's $145 billion. As shares of gross domestic product, they look manageable (1.9% and 1.3% respectively). But those estimates do not take account of new tax cuts, new spending or war in Iraq. And Mr Bush had previously said deficits would be merely a passing phase, a claim that looks increasingly dubious. In his address, the words “budget deficit” were notable for their absence. To judge by reactions afterwards, the address will not change public opinion about Mr Bush's economic record.

In other areas, it could be more successful. Last year's address was a broad definition of America's role in the world after September 11th, as leader of the struggle with “the axis of evil”. This year's speech addressed more specific concerns.

Is America a reckless polluter? Then consider the clean-car initiative. Is it indifferent to the third world? Here is substantial money for AIDS. Bill Frist, the leader of the Senate, said he thought that, in ten years, people would look back on this initiative as the most important part of the address. Has Mr Bush forgotten “compassionate conservatism”? Then here is federal money for volunteers who help children with parents in jail; here are vouchers to help drug addicts pick treatment programmes (which, incidentally, could raise worries about church-state separation, since many of the best programmes are religious ones).

But however substantial these ideas may be, they were only scene-setters for the evening's main event: Iraq and the war. Suddenly, it was as if Mr Bush was giving a different speech, powerful where he had been dutiful, passionate where he had been plodding. In the chamber, you could have heard a pin drop. For the domestic audience, Mr Bush's account was damning. He talked of graphic torture, of Iraq's broken disarmament promises and of its subversion of weapons inspectors.

Before the speech, more than half of Americans said he had not made his case yet. He has begun to do so. More speeches by himself and Colin Powell are likely to boost domestic support for war further. But because he remains committed, for the moment, to the weapons inspectors, he argued both for disarmament and for regime change. Whether this confusion of aim will undermine his attempts to win over a worldwide audience is unclear.

Mr Bush has often used set pieces like the state-of-the-union to shape debate. But this one confirmed, rather than altered, his standing. Domestically, his presidency is increasingly partisan, relying on tax cuts for the economy and the private sector for health care. On Iraq, he is building momentum towards war. Both strategies may succeed. But these are not the actions of a cautious man.

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Reforming health care

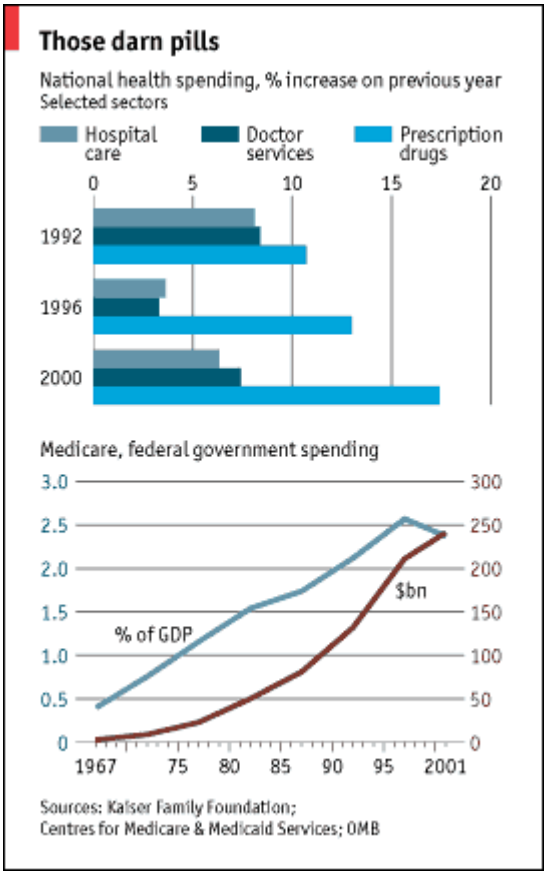
Uphill all the way

Jan 30th 2003 | WASHINGTON, DC
From The Economist print edition

The old hate change, and the old and sick dislike it even more

A DECADE after “Hillarycare” ignominiously imploded, health care is once again at the top of America's domestic agenda. Medical insurance prices for private-sector employees rose by 12.7% from spring 2001 to spring 2002, the largest increase since 1990, and double-digit rises are expected for the foreseable future. Employers are passing on more of their health-care costs to their workers, who pay more for fewer benefits. Some 1.4m Americans lost their health insurance in 2001.

In his state-of-the-union address George Bush put reforming Medicare, the federal programme that provides medical insurance for almost all elderly Americans, near the top of his domestic agenda. He said that he would devote $400 billion over the next decade to reforming the system, and announced ambitious plans to plug the biggest gap in it: the fact that it does not cover the cost of drugs.



Mr Bush was under huge pressure to do this. During the mid-term elections last November almost every Republican candidate promised a prescription-drugs benefit. The old are one of America's most powerful lobbies, capable of tilting elections in battleground states like Florida. And America's 76m baby-boomers, most of whom are now in their 50s, are getting nervous that they will have to spend their retirement choosing between eating and filling out their prescriptions.

But the other problem with Medicare is that it is so damned expensive. The system has long been relatively generous. Medicare recipients are not means-tested, although many are very well off, and most enjoy a wide choice of doctors and hospitals. And even without new drug benefits, costs are rising at an unsustainable rate. In 2001 spending on Medicare rose by 7.8%. The Congressional Budget Office says that the annual cost will rise from an estimated $247 billion in 2002 to more than $480 billion in a decade's time.

The government is already being forced to trim costs to save the system from bankruptcy. Last year it cut doctor reimbursement by 5.4%, and another cut is scheduled this year. A growing number of doctors are either dropping Medicare patients or refusing to take new ones. A huge new drug benefit, which could easily cost $400 billion over the next decade, will only hasten the collapse of a badly creaking system.

How do you avoid that, and yet give pensioners their drugs? The Bush administration's solution is to use the new drug benefit as a catalyst for fundamental reform. People who are happy with the status quo will be allowed to stay in Medicare. But those who want free drugs (and certain other perks) will have to join health maintenance organisations (HMOs) and other private health plans, which hold down costs partly through competition and partly by restricting access to doctors and treatments.

Does this bill have any chance of success? Luckily, Mr Bush has Bill Frist, a surgeon whose family founded one of the biggest health-care companies in the country, as the new leader of the Senate. Mr Bush's Medicare plan closely resembles proposals Mr Frist has been pushing for the past three years. Mr

Frist claims that he will be able to get the bill passed by the summer.

But there are two big problems. The first is practical: in large chunks of the country, there are simply no health plans to join. And, second, America's previous attempts to inject competition into Medicare hardly inspire confidence. Medicare + Choice was established in 1997 in order to encourage patients to join managed care. But so far only 5m Medicare recipients have joined. Many HMOs dropped out of the system because they felt that Medicare did not pay them enough—and many HMOs dropped patients as they grew older and costlier.

Mr Bush is also likely to face overwhelming pressure to make drugs benefits available to all old folk, not just those enrolled in private health care. Retired Americans hate change, and Democrats are exploiting that by accusing Mr Bush of planning to privatise Medicare. For his part, Mr Bush has weakened his ability to hold the line by his enthusiasm for more tax cuts. But making drugs benefits universal will remove any incentive that old folk might have to join private plans.

Mr Bush also argued that America needs to address “one of the prime causes of higher costs”: the constant threat of malpractice suits against doctors. The Republicans want to place caps on the size of jury awards. But the Democrats, who are closely allied with trial lawyers, are hostile to any such caps.

The likelihood is that both these ideas will bite the dust. The forces of inertia in American health care are too great, the system too fragmented and the vested interests too powerful. But at least the United States is doing something that it has not done for years, and started taking health-care reform seriously.

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Texas politics

Beware: dreams may come true

Jan 30th 2003 | AUSTIN
From The Economist print edition

Texas Republicans have power at last—and problems

IF ANYBODY symbolises the change in Texas politics, it is Tom Craddick. Back in 1968, when he was first elected to the 150-seat Texas lower house, he was one of only eight Republicans. The ambitious 25-year-old spurned a chance to run as a Democrat (his father was their local precinct chairman), bravely forecasting to the local paper in Midland that "the Republican Party is the future of Texas." In November 2002, "a lot later than I expected", the Republicans finally won the House—and Mr Craddick has become the first Republican speaker since 1873.

Yet this Republican sweep—which also saw one of Mr Craddick's protégés, Rick Perry, retain the governorship, and kept the Senate, too, in their hands—could hardly have come at a worse time. In the mid-1990s, when George Bush was governor, politics in Texas revolved around how to distribute the surplus, with Mr Bush getting a big tax cut and the Democrats getting more money for education. Now the legislature, which meets only once every two years, has to plug a $10 billion hole in the upcoming 2004-05 budget, including a shortfall of nearly $2 billion from the current fiscal year, which ends in August.

The Republican solution, inevitably, is cuts. Mr Perry and Mr Craddick have called for state agencies to cut their budgets by 7% this fiscal year (with schools, Medicaid and children's health excepted). As for the 2004-05 budget, the Republicans talk vaguely of $7 billion of waste in administration. In his inauguration speech, Mr Perry pointed out that, even with the cuts, the state's budget will still exceed $100 billion. Other Republicans point out that the deficit for 2004-05 is nearly twice as big as the entire budget when Mr Craddick was first elected.

To set the tone, Mr Perry has put forward a bizarre (and, in terms of paper, deeply wasteful) first budget, with zeroes beside every item. In fact, the governor has less power over the budget than Mr Craddick and David Dewhurst, the lieutenant-governor, who chairs the Senate. And they in turn need co-operation from the Democrats, who can still block laws, particularly in the Senate. The Democrats are likely to spend the next five months hollering that the Republican cuts will fall disproportionately on poor and middle-class Texans.

Will Texas politics remain the cosy affair of yore? Mr Bush succeeded as governor only because he got on so well with Bob Bullock, the Democratic lieutenant-governor, an ex-alcoholic who had been married five times (twice to the same woman) and knew where all the bodies were buried. (Legend has it that in one exchange between the two, Bullock complained that "If you're going to fuck me, you'll have to kiss me first." Mr Bush immediately applied his lips to the cheek of the grizzled old pol.) But when Mr Bush left office he worried that he might be "one of the last bipartisan governors". One Democrat who was ousted in the recent election forecasts that Mr Craddick, a conservative who made his name in the dark arts of redistricting, will become a divisive, reactionary figure. He has fallen out with his sometime college friend, Pete Laney, the previous speaker.

For the moment, though, the Republicans are playing by the rules. Mr Dewhurst has charitably named Democrats to head six out of 15 Senate committees. Mr Craddick says that he will stick by the same polite Texan custom in the House, though he has blocked an effort by the Democrats to appoint people to the crucial appropriations committee on the basis of seniority. The amiable language is certainly the same. "Mr Speaker, we're back," one emissary from the Senate announced. "The lights are on. The fire is lit and we're fixing to slaughter the hog."

The probability remains that, in the coming carve-up, the Republican triumvirate of Perry, Craddick and Dewhurst will get most of what it wants, if only because the Democrats are in a funk. There are no

Democratic statewide officers. Some look hopefully to the Latinos, who are set to become a majority in the state in 2040. But Tony Sanchez, the Democratic candidate for governor, failed to beat Mr Perry (or “Governor Good Hair” as he is sometimes known), despite spending around $60m of his own money on the race. And the Republicans are working to lure the Latinos: governors from three Mexican states were at Mr Perry's inauguration. Now Mr Craddick has complete control of redistricting, too. “It's going to be a tough decade for the Democrats,” he says, with a smile.

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Clean energy

The next Apollo mission?

Jan 30th 2003 | NEW YORK
From The Economist print edition

George Bush throws his weight behind hydrogen-fuelled cars

NEVER before has a president used his state-of-the-union speech to give his compatriots a lesson in chemistry. Yet consider these schoolmasterly words uttered by George Bush to the assembled congressmen, justices and generals. “A simple chemical reaction between hydrogen and oxygen generates energy, which can be used to power a car producing only water, not exhaust fumes...Tonight, I am proposing $1.2 billion in research funding so that America can lead the world in developing clean, hydrogen-powered automobiles.” (Enthusiastic applause.)

At first blush, it appears that Mr Bush, much abused by environmentalists for his cosiness with the fossil-fuel industry, is turning positively green. After all, the hydrogen technology he is trumpeting—the FreedomFUEL initiative, as he calls it—is the first serious challenge to the iron nexus of petrol and the internal combustion engine to emerge in a century. If hydrogen and fuel cells (the big batteries that would produce the chemical reaction that Mr Bush referred to) were really to take off, and if the hydrogen fuel could be produced from renewable resources such as wind or solar power, they might even put the petroleum industry out of business one day. It sounds like an environmental fantasy of the most extravagant kind, especially when it comes from a Texan oilman.

Yet greens remain sceptical. The Sierra Club immediately denounced the fuel-cells scheme as a feint to divert attention from shorter-term measures such as tightening up the Corporate Average Fuel Economy (CAFE) law, which requires car companies to produce more fuel-efficient motors. “The president seems to be comfortable with the auto industry's approach of ‘Don't make us do anything today. Twenty years from now we may develop fuel cells',” said a spokesman.

Others note that Mr Bush's speech also repeated his support for un-green measures such as his Clear Skies Initiative, a bill to regulate emissions from power plants that excludes carbon dioxide (the principal greenhouse gas responsible for global warming), and his energy bill, which strongly boosts coal and nuclear power and proposes opening up protected areas of Alaska to oil-drilling. Both measures, thanks to green lobbying, met strong resistance in Congress last year.

There are less cynical explanations, however. For a start, by pledging a big chunk of government money to hydrogen research, Mr Bush is helping his natural constituents in the car and energy industries. Steve Arwood of NextEnergy, a non-profit initiative set up by Michigan to boost clean-energy technology, says he is “absolutely thrilled” by this week's news. In fact, some worry that Mr Bush is only too sincere in his desire to support hydrogen, and that many a pork-barrel project will ensue once energy companies wake up to the chance of government assistance. The Cato Institute, a think-tank which generally supports Mr Bush's policies, issued a warning this week that taxpayer money promised for hydrogen would probably be wasted.

Mr Bush may also have been spurred by the fact that potential political rivals are seizing the initiative on hydrogen. California has recently introduced mandates that are designed to boost fuel-cell cars, and New York has said it will follow suit. The European Commission also recently unveiled an ambitious hydrogen strategy, to much applause from European multinationals such as DaimlerChrysler and Royal Dutch/Shell. Most revealingly, on the eve of Mr Bush's speech, Senator Byron Dorgan, a Democrat from North Dakota, proposed a $6.5 billion, ten-year hydrogen strategy, which he described as “in the spirit of the Apollo moon-landing project”.

In the end, it may not matter much whether Mr Bush's heart is really in hydrogen. By giving his public and unqualified support for this promising but relatively obscure technology, observes Jeremy Rifkin, a Washington-based activist who has recently written a book on hydrogen, Mr Bush “may unwittingly have

given hydrogen a significant push ahead. This could be the beginning of a great national debate." And the president's remarkable words this week could prove the shot heard round the world as the next energy revolution gets under way.

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Reality television

Pone home

Jan 30th 2003
From The Economist print edition

Plumbing the depths, country-style

HUMANKIND, said T. S. Eliot, cannot bear very much reality. Maybe. But humankind cannot get enough of reality television. And if you had thought things couldn't sink much lower than “The Osbournes”, think again. CBS, a television network, wants to take a real family from rural America, set them up in a Beverly Hills mansion and broadcast the results. Participants are promised “up to $500,000 for a one-year commitment”.

The television series behind CBS's premise was a huge hit in the 1960s. “The Beverly Hillbillies” starred the Clampetts, a (fictional) family from the Ozark mountains in Arkansas. When the clan struck it rich, they made off for California. Accompanying patriarch Jed were his daughter, Elly May; his nephew, Jethro; and his mother-in-law, Granny. CBS reckons that, with the new series, viewers will be clutching their sides as the genuine hayseeds struggle to get to grips with money, power-showers and so forth. “Imagine the episode where they have to interview maids!” one executive is reported to have quipped.

But not everybody is amused. “This is pretty galling,” says Dee Davis, president of the Centre for Rural Strategies. “Somehow the barrel just seems to get deeper and deeper. With these reality shows, we're seeing the race to the bottom.” Mr Davis has placed ads in national and local newspapers denouncing CBS's plans. His campaign has won a lot of support across the country, and he now plans to take it to Washington.

Bad publicity is not the only obstacle that CBS faces. In the original show, despite their new-found riches, Jed never replaced his worn-out hat or dilapidated pick-up truck, Elly May never married, Granny never returned to the hills and Jethro never got to keep the girl. With precedents like that, little wonder no family of real-life hillbillies has yet volunteered to take up CBS's offer.

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The Powell doctrine revisited

Jan 30th 2003
From The Economist print edition

Has the secretary of state changed from dove to hawk?

THE transformation of Colin Powell has been astonishing. For the past two years, the secretary of state has sometimes seemed to be the Bush administration's in-house opposition. His caution, his distaste for “hard power” and his preference for multilateral support have won him praise and blame in equal measure: praise from those Europeans who think he is the only man preventing a foreign-policy disaster, blame from hawks who say he is the main domestic obstacle to an American-led better ordering of the world.

Yet now the dove has grown claws. Three weeks ago, Mr Powell was urging patience with Iraq and argued that the United Nations' weapons inspectors needed more time. Now, he says, “Iraq's time for choosing peaceful disarmament is fast coming to an end,” and—in full Dick Cheney mode—“inspections will not work.” The voice of the turtle sounds like a war trumpet.

The immediate reason is frustration about France and Germany. Last week, Germany sandbagged the secretary of state when it said it would not vote for war on Iraq at any price. The French foreign minister then insisted that “nothing” justified war now. This Franco-German grandstanding—the pair were promptly dubbed the “axis of weasels” by Americans—was a personal embarrassment for Mr Powell, the administration's strongest proponent of seeking UN backing for American policy. It also angered George Bush, who blamed his secretary of state for the rebuff. Mr Powell's new hawkishness may be partly designed to defend himself.

But the secretary's changed rhetoric is more than just a response to tactical embarrassment. It raises questions about his view of the world, and the extent to which it may be changing. This matters because that view underpins his patient pursuit of allies and his reluctance to go to war.

In his 1995 autobiography, “My American Journey”, Mr Powell wrote: “Many in my generation [of Vietnam war officers] vowed that when our turn came to call the shots, we would not quietly acquiesce in half-hearted warfare for half-baked reasons that the American people could not understand.” This was the Powell doctrine: force should be used only in defence of America's vital national interests and, when applied, should be decisive. It makes the secretary the most prominent advocate of caution in applying military power. So has Mr Powell abandoned his doctrine now? And if not, what are the implications of his new, tough stance?

On the face of it, there is some evidence that he has abandoned, or at least refined, his doctrine—and a good thing too, say the hawks. Mr Powell's yardstick might have been fine in the days of the cold war. But now, they argue, it sets a standard for intervention so high that it hampers American engagement even in conflicts where intervention is justified.

Two cases in point. Mr Powell himself urged caution before the first Gulf war of 1991, when he said there should be a long period of sanctions against Iraq before sending troops and when he argued that the first military aim should be to defend Saudi Arabia, not liberate Kuwait. Then, in 1993, he argued against military intervention in Bosnia on the ground that bombing could not end a centuries-old ethnic civil war. This led to Madeleine Albright's famous question: “What's the point of having this superb military you're always talking about if we can't use it?”“I thought I would have an aneurysm,” Mr Powell wrote later.

Now, say the hawks, Iraq shows another problem with the Powell doctrine. Such reluctance to use force is easily manipulated by enemies (and even allies) for their own ends. Witness Saddam's catch-as-catch-can with the weapons inspectors. Witness, perhaps, France and Germany's UN ambush last week.

The conclusion seems to be that Mr Powell's new hawkishness signals a turn against his own doctrine. And this may mean that he is giving up the patient alliance-building that is the practical corollary of scepticism about military intervention. Right? Not necessarily.

To begin with, Mr Powell is no natural dove. He supported Ronald Reagan's star-wars programme and backs Mr Bush's anti-missile defence system. He was chief military adviser to Caspar Weinberger, whose record as defence secretary makes Donald Rumsfeld look a bit like a peacenik. Neo-conservatives sometimes accuse Mr Powell of being more in tune with the Clinton administration, which he served briefly as head of the joint chiefs, than with his current boss. But he himself wrote of the earlier period: “Although I was a member of the team, I still felt a little like a skunk at the picnic.”

Autres temps, autres moeurs

Most important, Mr Powell himself insisted this week, after the Blix report, that “one must never rule out the use of force...to protect our people and to protect the world.” The only question is when to use it. If there is any inconsistency between that view and the earlier doctrine, it can be attributed to the emergence of the threat of weapons of mass destruction in the hands of violently unpredictable dictators or terrorists. Like every other aspect of American foreign policy, the Powell doctrine has required adjustment to the realities of al-Qaeda.

The implication is that the doctrine is not dead. Its author has not turned into a hawk (or, if he has, he had the capacity to be one all along). And this almost certainly means that his pursuit of alliance-building is not over either. Although America is clearly preparing for war, weeks are likely to pass before it comes. Mr Powell, who will lay out the case against Saddam in more detail in a speech to the UN on February 5th, may yet win over France or Russia to America's cause. And this time there should be fewer judgment-clouding doubts about the Bush administration's unity behind the president.

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Brazil's president

Lula's message for two worlds

Jan 30th 2003 | PORTO ALEGRE
From The Economist print edition

Can Brazil's president continue to appeal to Porto Alegre as well as Davos?

PERHAPS no other world leader could have pulled off the feat achieved last weekend by Brazil's new president, Luiz Inácio Lula da Silva. First, an ebullient crowd of 75,000 at the World Social Forum, a global gathering of the radical left, hailed him as its leader. “He provides hope not only to his own people but to struggling people all over the world,” said Thomas De Castro, a Canadian trade unionist, as he listened to Lula at the forum in Porto Alegre, a tidy state capital in southern Brazil. Then Lula flew directly to Davos, the Swiss town that hosts the World Economic Forum. There, his speech was greeted ecstatically by the assembled businessmen and bankers who symbolise everything that the Porto Alegre event was set up two years ago to oppose.

A month into his term, Lula does not discourage the idea that his Brazil will provide the world with a new paradigm. In Porto Alegre, he cited several Latin neighbours which, he claimed, “have high expectations” of his government. In Davos, he called for the creation of a fund, backed by rich countries and multinationals, to “fight misery and hunger” in the third world. We'll look into it, replied the head of the Davos forum.

Yet what brings joy to Davos Man ought to alarm Porto Alegre Woman, and vice versa. The Porto Alegre “progressives”, as they call themselves, are strident folk. Many routinely equate George Bush with Adolf Hitler. The proposed Free-Trade Agreement of the Americas (FTAA) amounts to crimes against humanity. Capitalism itself is thought to be toxic. But while Davos Man may be a little crestfallen of late, his faith in capitalism has been stirred, not shaken.

Ironically, if Lula is to satisfy them both, it will not be by creating a new paradigm but by working creatively within an established one. There are two reasons to think this. The first is that Lula is a reconciler. The marchers' slogan “Don't spill blood for oil” becomes, in Lula's mouth, “the world needs peace, not war,” and drew cheers in Porto Alegre nonetheless. “Down with the FTAA” turned in Davos into “we want free trade” but with “reciprocity”. And for leftists disenchanted with traditional democracy, Lula's election represents the possibility of reprieve.

Second, Lula seeks to achieve progressive ends largely with means that Davos would endorse. His economic team has swallowed the IMF's remedy for countries with weak finances and rising inflation: budget surpluses and high interest rates. Last month, the central bank raised interest rates, already astronomic, by half a percentage point. Brazil's currency and its bonds have weakened recently, but that has more to do with investors' war jitters than with any financial wobbling by the Lula government.

Nevertheless, some of the features of Lula's new paradigm are acquiring definition. In local government, his Workers' Party (PT) pioneered ways to bring ordinary citizens into policymaking through “participatory budgeting”. It plans to take the principle to the federal level, through a new Council of Economic and Social Development. This is supposed to build consensus on reforms within “civil society” and industry. The foreign minister, Celso Amorim, is expected to visit the PT's trade-union arm to discuss trade policy. “We never had ministers consult us before,” said a union official in Porto Alegre.

The government's flagship programme, to be launched over the next few days, is *Fome Zero* (“zero hunger”), a national version of Lula's proposed international fund to fight misery. But this programme, like others of Lula's policies, is not nearly as novel as he and his supporters claim. It is likely to expand and improve upon anti-poverty schemes set up by Lula's predecessor, Fernando Henrique Cardoso.

Asked to define the new model, Tarso Genro, head of the new council, mentions first “realising the vast possibilities of the internal market”. This entails such unexceptionable measures as investing in infrastructure and research and development and giving small enterprises access to credit. Does the government want to raise taxes, already a weighty third of GDP? No, it would prefer to lower the burden and widen the revenue base, says Mr Genro. This would be done partly by bringing into the formal economy the half of the labour force that works off the books. The new model “is not a radical change,” he admits.

Caution is no guarantee of wisdom. The government could err in many ways that would pass unnoticed by the financial markets, at least for a time. Money could be squandered on badly designed poverty programmes or on bail-outs of failing companies. Rather than trying to prise open North American markets, Brazil could close the door to its own. This week it took action to stem imports of textiles from East Asia to protect its domestic industry.

Porto Alegre progressives would cheer each retreat from “market fundamentalism”, but the Lula government looks unlikely to give them many such satisfactions. What, then, does the PT's pragmatist majority have in common with the Porto Alegre radicals? Opposition to “neo-liberalism”, says Mr Genro. But that convenient political swear word means different things to the two groups. For radicals, the term stands for capitalism; for Lula, a narrow conservative version of it.

Already it is clear that the obstacles to Lula's success may come less from Davos than from within his own camp. On the one hand, he has accepted the support of backwoods political barons whose problem with “neo-liberalism” is that it means a smaller state to plunder. And on the other, his most vocal public critics are on his party's left, preparing to oppose the IMF, and the pension and labour reforms which Lula has accepted are essential to generate the growth and resources needed to fight poverty. If he does show that Davos is no obstacle to economic and social justice, his welcome may be chillier in Porto Alegre by the end of his term.

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Politics in Argentina

Duhalde v Menem (continued)

Jan 30th 2003 | BUENOS AIRES
From The Economist print edition

The president wins a skirmish

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Is Duhalde's time really up?

A PRESIDENTIAL election is supposed to be held at the end of April. But for months past, the biggest political battle in Argentina has been over how, and indeed whether, the ruling Peronist party might pick its candidate. In reality, this is another skirmish in a long war between the country's current president, Eduardo Duhalde, and a previous one, Carlos Menem. And at present, it is Mr Duhalde who would seem to have the upper hand.

At a Peronist congress on January 24th, delegates did as the president wished and voted to cancel a party primary. Ostensibly, the reasons included the need to avoid internal conflict, which in Peronism has often been settled by violence. But most Argentines believe that the true motive was that Mr Menem might have won a primary—and thus the presidency, since the Peronists not only lack strong opponents but traditionally unite behind their official candidate.

The convention's decision means that three Peronists are likely to stand against each other in the election: Mr Menem, Adolfo Rodríguez Saá, who lasted just a week as Argentina's caretaker president in December 2001, and Néstor Kirchner, the governor of the small southern province of Santa Cruz. In that case, Mr Menem would struggle to pick up votes outside the party, since many Argentines blame him for the economy's collapse and prefer to remember the scandals rather than the successes of his rule from 1989-99.

So victory for Mr Duhalde then? Not quite. Mr Menem had already won a court ruling ordering the party to hold a primary. The matter is likely to end up in the Supreme Court, many of whose judges he appointed. But the delays involved could mean that the election itself is cancelled.

That, claim Mr Menem's supporters, is what Mr Duhalde has wanted all along. Officially, the president's term does not expire until December 10th; he offered to curtail it after the deaths of two demonstrators during protests last June. But now the economy is showing tentative signs of recovery, and the government has an (albeit temporary) agreement with the IMF. Mr Duhalde's plan is to hang on, and then stand for re-election, say his opponents. Nonsense, says Mr Duhalde. “Menem should do as I am doing and go,” he said last week. If only.

Having won the initial battle, Mr Duhalde is now attempting to negotiate a truce. If that fails, the Peronist congress agreed that a commission of party potentates should designate a single candidate—almost certainly Mr Kirchner, who now has Mr Duhalde's support. That has helped to push Mr Kirchner into first or second place in all the polls.

But Argentines are still pretty disgusted with all their politicians, and many may not vote at all. None of the four leading candidates—the three Peronists, plus Elisa Carrió, an anti-corruption campaigner—has more than 20% in the polls. Rarely has an election been less predictable. If it happens, that is.

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Colombia's conflicts

Sniffing for peace

Jan 30th 2003 | BOGOTA
From The Economist print edition

Talking to the vigilantes

THEY are the mirror image of Colombia's last set of peace negotiations. Those were conducted by the previous government with the left-wing FARC, amid much publicity and continuing violence—and were futile. This time, a six-man “exploratory commission” nominated by President Álvaro Uribe held two discreet meetings with representatives of the country's far-right paramilitary factions. These talks, held last month, followed a unilateral ceasefire called by the United Self-Defence Forces of Colombia (AUC), the largest paramilitary group, and later adopted (patchily) by others.

Formal negotiations are months away, admits one of those involved. Obstacles abound. The paramilitaries, with some 10,000 fighters, are at least as brutal as the guerrillas they oppose, enjoy the complicity of some army officers, and are more involved in the drugs trade. They control around 40% of drug-growing regions, according to one estimate. The United States is seeking the extradition of several AUC members, including Carlos Castaño, its founder, for drug-trafficking.

So talking to them is delicate: one of the negotiators' first tasks is to assess what sort of amnesty Mr Uribe could offer. Most foreign governments, and the UN, not to speak of their victims' relatives, would hate to see exoneration for paramilitary murders and torture. Any terms would also have to be offered to the guerrillas (though these have rejected negotiations with Mr Uribe). The army commander, anxious not to jeopardise his institution's image, has rejected the notion that demobilised paramilitaries could join the armed forces. There is no other obvious way to guarantee their safety.

But taking the paramilitaries out of the conflict would be a big victory. The prospect of doing so looks real. Mr Castaño is politically more agile than the FARC's leaders. He seems to have concluded that greater international intolerance of terrorism, and the AUC's drug-trafficking, were harming his cause. And the AUC likes to think that Mr Uribe's military build up might make vigilantism unnecessary.

Mr Uribe could probably sell a deal, if it comes quickly. His support has dipped a bit, but remains high; Colombians approve of his handling of the paramilitaries, according to a recent poll. But a swift outcome is unlikely. The government's commission still has much exploring to do.

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The softwood-lumber dispute

A simple lesson in economics

Jan 30th 2003 | VANCOUVER
From The Economist print edition

American protectionism creates fitter Canadians

“IT'S the biggest trade battle on the planet,” says Pierre Pettigrew, Canada's trade minister, with only mild exaggeration. In 2001, Canada exported softwood lumber and wood products to the United States worth C$10 billion ($6.5 billion). Unfairly so, thanks to subsidies, squealed the American lumber lobby. Last May, America imposed countervailing duties averaging 27% on Canadian imports. This was supposed to force Canada to negotiate. But now it is the Americans who are suing for peace. This week, at the invitation of the United States' Commerce Department, all parties in the dispute were to gather in Washington for talks.

The duties have certainly hit Canada hard—and especially British Columbia, which accounts for about half of the exports. Mills were closed, thousands of workers were laid off and profits have crashed. But the industry has emerged even fitter than before. With production now concentrated at the more efficient mills, the industry's average costs have fallen by $65 per thousand board feet of lumber (even after adding on the duties). That has allowed Canadian firms to maintain their share of the American market while still turning a thin profit.

Meanwhile, the duties have not shielded American producers from pain. European producers have increased their exports, and prices have fallen by 10% since May. Twice as many American mills (114) as Canadian ones (51) have shut, or cut their output. Many managers admit that the duties have failed. So they want to replace them with export quotas.

That is precisely what Canada wants to avoid. In the past, Canada has agreed to managed trade, as a quick fix to a dispute which first flared 20 years ago. This time, it wants a long-term settlement. “The problem is very simple. It's that the American companies are not competitive,” says Mr Pettigrew. The roots of the dispute lie in different traditions. In the United States, most forests are privately owned, and timber prices are set by private contracts or auctions. In Canada, almost all forests belong to provincial governments, which grant companies long-term cutting-rights in return for promises about job numbers and sustainable forestry. Governments set harvest levels, restrict the export of raw logs and set stumpage rates (or cutting fees) according to market conditions.

The American lumber lobby instinctively suspects that a system where government has such a big role must involve subsidies. But on three earlier occasions, trade tribunals have disagreed. Mr Pettigrew is confident that the World Trade Organisation (WTO) and a tribunal under the North American Free Trade Agreement will come back with the same answer this time. Already, a WTO panel has ruled that the United States violated trade rules in applying preliminary countervailing duties.

That may explain why the Americans seem to be wobbling. Last month, Grant Aldonas, the under-secretary of commerce, set out for the first time the changes that America wants Canada to make if the duties are to be lifted. He called for the provinces to eliminate any rules that “insulate lumber producers from the market” and to use timber auctions to set stumpage fees. In other words, Canada should adopt the American model outright.

Nobody in the industry expects this to happen. Even so, Canada has agreed to talk, though British Columbia is keener to do so than Quebec, the other big producer. That is partly because British Columbia has its own plans to make forest management more market-oriented. These would double auctions of public timber (to at least 13% of the total cut), and base stumpage rates on those auctions. They would also scrap rules that require companies to harvest lumber even when the price is low and process it in their own local mills, and that make it hard for them to close mills. The reason? The government reckons that far from subsidising the lumber industry, its regulatory regime has hurt productivity and raised

costs, without creating jobs.

The irony is that whether or not there is a settlement, British Columbia's lumber producers are set to become even more efficient. The big losers in all this, of course, are American consumers, whose houses are unnecessarily expensive—and protectionists, who are being given a lesson in textbook economics.

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Trinidad and Tobago

Toxic tales of terrorism

Jan 30th 2003 | PORT-OF-SPAIN
From The Economist print edition

An improbable terror threat in the Caribbean

IF TRUE, it would be terrifying. On January 26th, Trinidad's *Sunday Express* claimed that a chemical-weapons factory had been operating on the island for two years. A journalist had been taken blindfold to a cellar, and shown bottles of chickpeas and other substances. He was told of (but not shown) several hundred barrels of nasties stored in secret hideaways.

The opposition screamed for a parliamentary debate; it has claimed that the government of Patrick Manning, a staid churchgoer, is linked to al-Qaeda. In fact, only tiny groups among Trinidad's 80,000 Muslims say they support Osama bin Laden. Britain's Foreign Office, criticised for its silence before the Bali bomb, had earlier warned vaguely of a possible “increased terrorist threat” in Trinidad. British and American firms are big investors in the island's oil, gas and chemicals industries. But the *Express* story left the professionals underwhelmed. Neither American nor British diplomats advised extra precautions.

Some damage may already have been done. P&O Princess Cruises dropped Port-of-Spain from its routes two weeks ago. Insurance costs for energy firms may rise. The government worries about its ambitions to host the secretariat of the planned Free-Trade Area of the Americas. It seems that there is much poison in Trinidad's politics, if not necessarily in its cellars.

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The Philippines

Lame duck plans to soar

Jan 30th 2003 | MANILA
From The Economist print edition

Can Gloria Arroyo, now nearing the end of her presidency, still make a difference?

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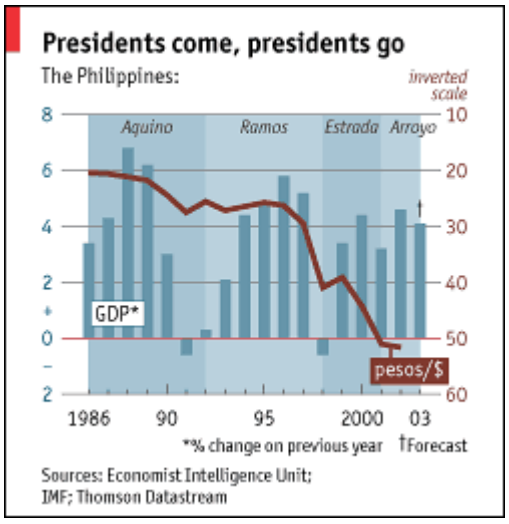
LITTLE has changed, Gloria Arroyo admits, between her father's presidency of the Philippines in the 1960s and her own today. Like her, Diosdado Macapagal concentrated on improving the lot of the poor by reforming the economy, she explains. Again like her, he was thwarted by “vested interests”—a reference to the clique of rich families that dominates local business and politics. “We are the oldest democracy is Asia,” she says, “but we have also become one of the weakest.”

But that is coming to an end, Mrs Arroyo declares, fixing the portrait of her father that hangs opposite her desk with a steady gaze. Whereas he ran for a second term and lost (to Ferdinand Marcos, the country's future strongman), she recently announced that she would not stand in next year's presidential election. Freed from the pressures of electoral politics, she argues, she will make a clean break with the past in her final 17 months in office.

Will she? Mrs Arroyo does not seem much of a revolutionary. She is, after all, very obviously a political dynast herself, and styles herself “Gloria Macapagal Arroyo” to ram the message home. Some say that she was reduced to announcing a grand new strategy only because her previous approach was getting her nowhere.

What is more, her plans do not seem much of a revolution. She has proposed over a dozen new laws, including such underwhelming steps as a pay rise for judges, an increase in taxes on alcohol and cigarettes, and a measure to allow banks to securitise loans. The most exciting items on the list are the extension of voting rights to Filipinos living overseas, and the computerisation of the balloting process.



Other politicians are pushing far more ambitious schemes to heal the country's ills. Jose de Venecia, the speaker of the House of Representatives, wants to switch from the current presidential system of government to a parliamentary one. The newspapers speculate daily about a “con-con” (constitutional convention) or some other form of “cha-cha” (charter change, meaning constitutional amendments). But the president's advisers point out that any grandiose projects will raise unhappy memories of Marcos's self-serving manipulation of the constitution, and thus distract attention from Mrs Arroyo's own, more limited plans.

They are probably right: even her modest agenda faces a fierce fight in Congress. Its members, after all, are still running for re-election, even if Mrs Arroyo is not. But should her act of self-sacrifice prove popular with the Filipino in the street, some congressmen might throw their lot in with her in search of reflected glory. One opposition senator, Edgardo Angara, has already announced that he applauds the president's patriotism and will help her to turn her ideas into law. But most lawmakers will think twice before voting to raise taxes in the run-up to an election.

Mrs Arroyo could try to coerce representatives by refusing to disburse funds earmarked for their constituencies. Senators, however, are not susceptible to that sort of manipulation, since they are elected from a single, nationwide district. At least one is running for president on a law-and-order ticket, and so stands to gain from a chaotic close to the Arroyo administration. Anyway, the favours Mrs Arroyo can offer over the next 17 months pale by comparison with what her successor can provide over the following six years.

Moreover, as Alex Magno, a presidential speechwriter, points out, most congressmen have connections to wealthy landowning or industrialist families. Others are sports stars or matinee idols. They are hardly the ones to vote in tougher tax-collection measures, another item on the president's wish-list. Nor are they keen on rolling back the Philippines' banking-secrecy laws, which anger rich countries worried about money-laundering.

Mrs Arroyo has always had a weak mandate. As vice-president, she came to power when street protests overthrew her predecessor, Joseph Estrada. His populist promises to help the poor and rattle the middle classes got him elected, but also turned the country's businessmen and bureaucrats against him. Mrs Arroyo's cautious and technocratic style has the support of the upper crust, but leaves the bulk of the electorate cold. This rift will continue to paralyse Philippine politics, whoever stands at the next election.

It has also reduced Mrs Arroyo to reform by stealth. On close inspection, her legislative proposals, modest as they are, do at least concentrate on two key issues. The first is government revenue.

Over the past five years, even as the economy has grown (in 2002 by an impressive 4.6%) the tax take has fallen from 17% of GDP to barely 12%. Mrs Arroyo herself has presided over the most precipitous decline, despite having pledged to put an end to tax-dodging and to restore the government's finances. The ensuing cash crunch, in turn, left her with little scope to do anything much, apart from scrambling to cut expenditure and rein in a galloping deficit. But her many incremental economic proposals—to put government procurement online, privatise the electricity grid, raise “sin” taxes, abolish tax breaks for certain types of car, overhaul the tax-collection agency, and so on—would add up to a windfall for the government if they all became law.

Mrs Arroyo's second main target is electoral reform. At the moment, Filipinos must write the names of their preferred candidates on to the ballot papers by hand. That means that only candidates with unforgettable names—celebrities and bluebloods—stand much chance. What is more, the 7m expatriate Filipinos cannot vote. Switching to ballots that can be read by computers, and mailed from abroad, could revolutionise the Philippines' politics—if politicians elected under the current system accept the change.

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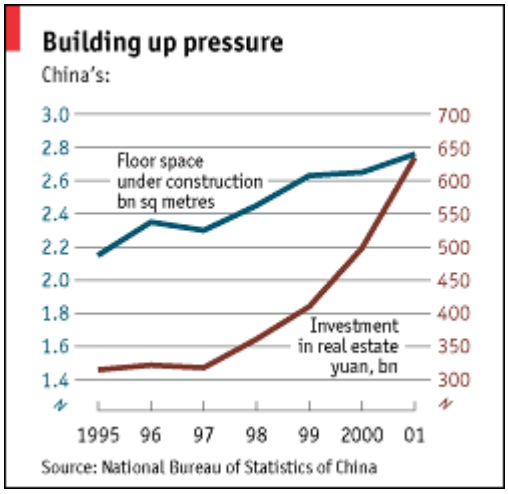
Unpaid workers

Does China have 10m slaves?

Jan 30th 2003 | BEIJING
From The Economist print edition

Construction workers wear no chains, but often receive no wages



MILLIONS of Chinese building workers are leaving the cities and heading back to their villages to celebrate the start of the Year of the Goat. But the lunar new-year festivities, which begin on February 1st, will be tinged with anger. China's corrupt and chaotic construction industry has left many labourers unpaid for months, causing a wave of protests and making the holiday much less fun.

The workers' pain will not be eased as the government attempts to prevent a property bubble by reining in speculative lending to developers by state-owned banks. If the flow of money dries up, migrant labourers—who usually work without contracts—are the least likely to receive their pay. According to preliminary figures, investment in property development grew by 28% between January and November last year compared with the same period in 2001.

Late last year the prime minister, Zhu Rongji, gave a warning that the real-estate sector in some cities was overheating. According to a report issued this month by Credit Suisse First Boston, residential property prices have risen by 10-20% in most Chinese cities in the past two years. The report said a directive in December by the People's Bank of China (the central bank) to tighten credit lines to developers could be “the last straw” for the market.

Even in a buoyant market, building workers have a hard enough time getting their wages. With what amounts to a limitless supply of cheap, unskilled labour (at least 150m people in the countryside have little or no work to do), there is fierce competition among contractors for any construction job. Even if the developer does not keep up with payments needed for the workforce, the construction company will not necessarily down tools. So long as the workers' bosses are getting paid, the workers themselves are often treated with disdain. Without contracts, the labourers have little chance of redress through official channels. The ruling Communist Party does not allow them to set up unions.

In Beijing, where floor space under construction increased by 49% in the first half of 2002 and building now employs some 850,000 migrant labourers, the wrath of unpaid workers erupted in an unusually vigorous demonstration on January 17th. Some 200 labourers piled up wooden planks to block off the entrance to Greenland Garden, a residential compound that is home to many foreign diplomats and business people.

The workers complained that they had not been paid for a year, and had no money to go home for the holiday. They chose the compound as their target because it was built by the Hong Kong developer responsible for the apartments they are now helping to construct. A group of workers rushed into a building where the compound's management offices are located, brandishing their safety helmets and shouting, “Hit him, hit him!”

Reports in the government-run media suggest that there have recently been many other protests around the country. One quoted an adviser to Beijing's municipal legislature as saying that frequently groups of “agitated” unpaid workers had gathered outside government offices in the city, some engaging in “not level-headed conduct”. Another report said a labourer had burned himself to death in the eastern city of Jinan, and two others in the southern port of Shenzhen had climbed up cranes, threatening to jump off

unless they were paid (it did not say whether they did). The *China Daily* published a photograph of construction workers protesting in the city of Nanjing and said some labourers had resorted to kidnapping for ransom.

Officials have put pressure on contractors and developers to pay up in time for the festival, threatening to cancel business licences for those who fail to do so. In most cases, it appears, migrant labourers have at least managed to get enough money to pay for their journey home.

Zhou Xiaozheng, a sociologist at the People's University of China in Beijing, says the government has tended to treat protests by unpaid migrants with restraint, fearful that being tougher might only make things worse. But he argues that the practice of withholding wages from migrant labourers will persist as long as such people are treated as second-class citizens in urban China. “China has 10m slaves. The definition of a slave is someone who is given work and food but no wages. That's what these people are.”

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Peace in Sri Lanka

Tottering on

Jan 30th 2003 | COLOMBO
From The Economist print edition

War weariness drives the negotiators

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AP

Wickremesinghe and Kumaratunga: Sri Lanka's other civil war

THE destination remains hazily distant, but the journey is going more smoothly than most dared hope. As the Sri Lankan government and the Liberation Tigers of Tamil Eelam prepare to hold their fifth round of peace talks in Berlin on February 7th and 8th, their ceasefire has survived a year. It is not peace, but it is much better than war, and the longer it lasts the more appalling does the prospect of renewed fighting seem. But it cannot be ruled out.

Many Sinhalese, who make up three-quarters of Sri Lanka's people, believe the Tigers are only pretending to have forsaken their brutal methods and separatist ambitions, while they consolidate their control over swathes of northern and eastern Sri Lanka. Reports by Norwegian-led monitors that they have continued to “recruit” hundreds of children add weight to this claim. A spokesman for Sri Lanka's erratic president, Chandrika Kumaratunga, has claimed that the Tigers have added 10,000 fighters and civilians to their ranks during the ceasefire. Her scepticism matters, since she has the power to dismiss parliament. But peace is popular and a new election might strengthen the government of Ranil Wickremesinghe, the prime minister, at her party's expense.

Many others are also wary of “breakthroughs” in the talks, such as the Tigers' agreement to “explore” a “federal” solution rather than a fully-independent homeland (“Eelam”), or “confederation” under which they would keep their army (and big territorial claims). The Muslim minority in the east, especially, is justifiably fearful about its future. Suspicions of the Tigers' intentions have crystallised in a dispute over the “high-security zones” maintained by the Sri Lankan army in the north. The Tigers demand an end to these symbols of Sinhalese occupation, so people cleared from the areas can return home. The army wants this linked to disarmament, which the Tigers reject.

The optimists put all this down to teething trouble. It will take time, they argue, to turn the Tigers from a ruthless terrorist army into a credible civilian administration that might even countenance a political opposition. But its leaders, they say, sincerely want to try. Their own people, weary after two decades of fighting, demand nothing less.

In the south, as in the north and east, support for peace rests in part on a potential economic dividend. So a recent surge in the price of necessities such as rice, gas, electricity and transport is causing jitters. So is the prospect of war in Iraq, which might hurt Sri Lanka through dearer oil and lost income from tea exports, tourism and remittances from overseas workers.

Many Sri Lankans are pinning their hopes on a conference of aid donors in Tokyo in June, under the illusion that it will shower the country in gold. But the real danger may come after that, if the economy fails to pick up, and angry Sinhalese start believing that peace has benefited only the Tamils. The peace process relies on convincing each side that it has won a war which in reality both have lost.

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Cambodia v Thailand

Whose Angkor Wat?

Jan 30th 2003
From The Economist print edition

A scuffle in Phnom Penh reflects centuries of resentment

IT SOUNDS like the plot of a war movie: the embassy in Phnom Penh in flames, angry local mobs beating foreigners in the streets, an emergency airlift and threats of military intervention. But it was a soap opera that prompted anti-Thai riots in Cambodia on January 29th. In a Thai television show first aired two years ago, a character suggested that Thailand should take over Angkor Wat, an ancient temple complex that is Cambodia's national symbol and biggest tourist attraction. The Cambodian media somehow dredged up the comments and attributed them to the actress who spoke them, not her character. Demonstrators gathered outside the Thai embassy this week, burned a few tyres, and eventually set the building itself alight.

The rioters then turned their attention to Phnom Penh's many Thai-owned businesses. At one point, Thaksin Shinawatra, Thailand's prime minister, told Hun Sen, his Cambodian counterpart, that unless the Cambodian authorities restored order within 90 minutes, he would send in Thai troops to do so. In the end, he just sent five planes to fly out 500-odd Thai civilians. Despite Thailand's show of force, the conflict is unlikely to escalate. On January 30th, the Cambodian government promised to pay for damage to Thai property.

If anything, Mr Thaksin has stoked the drama to make up for a meeker performance during a dispute with Myanmar last year. Nonetheless, Cambodians do enormously resent their bigger and richer neighbour. Thailand did, for a time, control Angkor Wat. During the second world war, Thailand annexed Cambodia's western provinces again. The modern town near Angkor is called Siem Reap—Khmer for Siam Defeated—in commemoration of one of the battles that went the other way. Thailand still throws its weight around. It recently rejected Cambodia's claims to another temple complex, and closed a border crossing that provides the only access to a third. Nowadays, however, it is mainly Thailand's commercial muscle that makes Cambodians squirm. Thais are the biggest foreign investors in Cambodia, and many of the tourists visiting Angkor Wat fly in and out of Bangkok (rather than visiting Phnom Penh), on Thai-owned planes.

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Hong Kong

Look, we listened

Jan 30th 2003 | HONG KONG
From The Economist print edition

The government takes seriously the worries about its new security laws

FOR months, Hong Kong has been having its noisiest argument since its return to Chinese sovereignty in 1997. Article 23 of the Basic Law, its mini-constitution, requires the enactment of laws against subversion, sedition, secession and treason, as well as the banning of links between local and foreign political bodies, and the theft of “state secrets”. Yet, when the government published its proposals in September, there was an outcry not only from the usual suspects, such as journalists and human-rights organisations, but also from bankers, foreign investors, lawyers and other establishment types. All worried that the proposed laws would erode the liberties that still distinguish Hong Kong from the mainland, even if only by creating a climate of self-censorship and fear.

The government made matters worse by leaving the task of explaining its plans mostly to Regina Ip, Hong Kong's security secretary. With all the charm of an aspiring tyrant—at one point, she seemed to blame democracy for the rise of Hitler—Ms Ip derided, disdained, and pooh-poohed the concerns put to her. Even the courteous elaborations of Robert Allcock, Hong Kong's meticulous solicitor-general, and the grandmotherly assurances of Elsie Leung, the justice secretary, could not dispel the impression that the government was not, as it claimed, consulting the public, but preparing it for the inevitable.

On January 28th, however, the government brightened up. It published a compendium of the comments it had received and announced significant changes to its proposals. True to rambunctious form, Ms Ip picked a fight with the press over whether these were “concessions” or “clarifications”, but even she could not conceal that changes were being made.

In its new version, currently being drafted, the government will drop a clause that would have made it illegal merely to possess publications deemed seditious—a point of particular concern to journalists and academics. It will tighten the definitions of offences. “Unauthorised access” to protected information, for instance, would have to involve actual crime, such as theft or bribery.

The new draft will also make it harder for Hong Kong to ban political organisations that the Beijing government finds disagreeable. Not only would Beijing first have to ban the organisation publicly, but Hong Kong's government would then have to prove that the local branch is subordinate to the mainland organisation. This seems to protect the Falun Gong, a spiritual sect which China's Communists consider subversive and whose leader lives in America, as well as the Roman Catholic church and most other worried bodies. Best of all, perhaps, the government now proposes that anybody accused under the new laws will have the right to trial by jury. In Hong Kong, jurors are selected at random, so this measure promises a reasonable measure of true justice.

Deservedly, the changes have been praised. The American Chamber of Commerce in Hong Kong said that all of its concerns had been addressed. Hong Kong's pro-China and pro-business parties were enthusiastic. But others had reservations. The Democratic Party said that the changes pay only lip-service to the fears of freedom-lovers. The Bar Association too was disappointed. It wonders why the government refuses to publish the exact wording of its proposals for public comment, so that lawyers can give useful opinions before the finished text is submitted to Hong Kong's Legislative Assembly.

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Afghanistan

Battle of the caves

Jan 30th 2003
From The Economist print edition

Fighting breaks out again

JUST when the United States hoped that Afghanistan had become relatively peaceful, leaving it free to concentrate on Iraq, American troops and their Afghan allies came under attack. On January 27th, the Americans were close to the caves in the Adi Ghar mountains near the town of Spin Boldak in the south of the country, not far from the border with Pakistan, when they came under small-arms fire. The Americans fired back, killing one man and wounding another. A third was taken prisoner and said that around 80 armed fighters were in the caves. Separately, on January 29th, three men were arrested in Kabul for, allegedly, plotting bomb attacks on American forces.

Helicopters were sent up to look for the rebels in Spin Boldak, and were fired on. The caves were then bombed, and strafed by a helicopter from Bagram. Soldiers started a cave-by-cave search. Colonel Roger King, the leader of the group searching the caves, said 18 rebels had been killed in what he said was the biggest engagement since March last year. No casualties were reported on the allies' side. Colonel King said the Americans had been getting reports that remnants of the Taliban and al-Qaeda were uniting under Gulbuddin Hekmatyar, who has declared holy war against American forces and their Afghan allies. Mr Hekmatyar, a former prime minister, fought against the Russians when they occupied the country (and was supplied with American arms).

Colonel King declined to say flatly whether Mr Hekmatyar's men were involved in the fight for the caves, or in other recent attacks on coalition soldiers in the south. The Taliban link to the rebels is said to be through a former district chief of Shindand. However, in unruly tribal areas it is famously hard to know exactly who is your enemy.

Hardy Pushtun tribesmen have never been smoothly answerable to a central authority. Nor have they ever taken kindly to foreign interference. Last week the Americans arrested Naeem Kochi, a leader of the Ahmadzai, a Pushtun tribe, because of his former links with the Taliban. Ahmadzai elders came to Kabul to call for his release, saying he was obliged to co-operate with the Taliban when they were in power. They were told that the president, Hamid Karzai, had no power to release him. Only the Americans could do that.

Some Afghans feel that Americans are insensitive to tribal ways. They give support to warlords who may be locally unpopular. Critics make a distinction between the army and American civilians working for the State Department. They are upset that the department has been slow to deploy its political staff to regions outside Kabul. This has inevitably left intelligence-gathering for the reconstruction of the country to the American army and to the warlords it supports: not necessarily the best way to rebuild a nation.

Some American special-forces units have been replaced with less experienced soldiers from regular units who are said to be insensitive to Afghan traditions, including respect for women. Another gripe is over the American pressure last year on Afghanistan's former King Zahir Shah not to stand against Mr Karzai as head of state.

The remnants of the Taliban and of al-Qaeda will naturally exploit this. It will help the Americans to show more awareness of Afghanistan's tribal and cultural variations. Otherwise they could find themselves more deeply stuck in this difficult country than they would wish.

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Israel's election

Sharon's famous victory

Jan 30th 2003 | JERUSALEM
From The Economist print edition

Getty

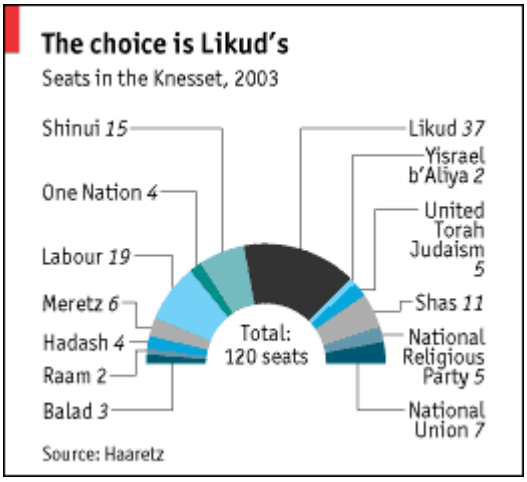
And he may even have more fun than usual playing the coalition cards

Get article background

THE Likud party's robust victory in Israel's election on Tuesday has left Ariel Sharon sitting prettier than the pundits predicted. He has a panoply of options for forming a coalition government with a reasonable prospect of longevity. He has the political clout, too, to make new moves for peace—though there is no serious evidence that he intends to do so.

The Likud romped home with 37 seats in the 120-seat Knesset. This is almost double the 19 it had in the last Knesset, and also almost double the 19 seats that its historic rival, Labour, managed to muster. Another big winner in this low-key election—the turnout was the lowest ever— was the anti-clericalist Shinui with 15 seats.

But Shinui's implacable foes, the two ultra-Orthodox parties, Shas and United Torah Judaism, together topped that, and they, presumably, will retain first claim to the prime minister's favours. The big losers included the left-wing Meretz and Natan Sharansky's immigrant party, Yisrael b'Aliyah. Mr Sharansky and Meretz's leader, Yossi Sarid, both resigned.



The result enables Mr Sharon to weld together a majority government without the far-right National Union in it. This party, supported by Russian immigrants and West Bank settlers, returned a disappointing seven seats. Mr Sharon and his aides have repeatedly ruled out a “narrow, extremist government”.

In his victory speech to exulting supporters, the prime minister urged the shell-shocked Labourites to join him in a new government of national unity. Shinui's leader, Tommy Lapid, urged Labour to dump its leader, Amram Mitzna, if he persists in opposing the idea of a “secular unity government” comprising Likud, Labour and Shinui.

But Mr Mitzna is adamant, and for the moment at least he is carrying his tattered party with him. If Mr Sharon embarks on a real peace initiative, he says, Labour will support from the opposition, just as Labour supported Menachem Begin when he made peace with Egypt in 1979. But Labour, which quit the

coalition last October, will not again serve as a fig-leaf for a policy that is all military muscle and no meaningful diplomacy.

The election arithmetic conveniently enables Mr Sharon to govern without Labour, and also, if he must, without Shinui. He can choose between the ultra-Orthodox and Shinui, both of which are committed never to sit at the same cabinet table. But even that “never” might be negotiable: Mr Lapid has hinted that a war with Iraq might create an emergency in which he could set aside his vow.

These various scenarios give Mr Sharon powerful leverage in the inter-party negotiations that traditionally drag on for weeks after an election. All the other would-be partners will have to digest the troubling thought that he can do without any one of them, if he has to. None of them is indispensable. None can hold Mr Sharon and the Likud in its thrall—and that, above all, expresses the extent of Mr Sharon's electoral success.

Ehud Olmert, the mayor of Jerusalem and chairman of the Likud campaign, attributes this success to the public's deep and abiding desire to punish Labour and the left for the failed Oslo peace process and the subsequent Palestinian *intifada*. Mr Mitzna argues that the public has largely accepted the underlying logic of the Oslo process: the eventual creation of an independent Palestinian state. But it wants Mr Sharon, not him, to implement it.

Mr Sharon himself also purports to endorse the Palestinians' right to statehood. It is this that underpins the warm relationship he has built with George Bush. Keeping those relations warm is Mr Sharon's overarching policy concern. His aides have compiled a list of amendments and reservations to the “road map”, the document drawn up by the so-called quartet (diplomats from America, the UN, Russia and the EU). The Israeli line is that there can be no progress so long as there is Palestinian violence, and so long as Yasser Arafat remains the Palestinians' leader. Mr Sharon claims he is ready to offer his “painful concessions” once reforms in the Palestinian Authority have produced new and more moderate leaders.

At present, in the flush of victory, that prospect must seem to Mr Sharon too remote to be bothersome. A more worrying cloud on the re-elected prime minister's sunny horizon could be the continuing police investigations into various sleaze stories that surfaced during the campaign. The Likud's electoral success seemed to signal its constituency's indifference to disclosures of alleged vote-buying, and Mr Sharon, in his victory speech, grandly offered “forgiveness for all who have besmirched me”. The besmirchers, and the law, might not be so magnanimous.

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Palestinian discord

To the trenches

Jan 30th 2003 | EAST JERUSALEM
From The Economist print edition

Palestinian leaders, having failed to agree, return to a threatened Gaza

Get article background

Reuters

How not to stop a tank

ON THE same day that the Israelis went to the polls, the Palestinian faction leaders, who had been meeting in Cairo, went home, without agreement. In the West Bank, Palestinians were penned even more tightly than usual into their towns, villages and refugee camps. In Gaza, where on January 26th the Israeli army had mounted its deepest incursion into Gaza City since 1994, they buried their dead and dug ditches in the improbable hope of warding off an Israeli invasion.

The Gazan raid had been provoked by the Palestinian rockets that routinely splatter Jewish settlements within the strip, and increasingly land on or near Israeli towns across the border. In retaliation, the Israeli army dynamited 100 metal workshops it claimed were used to manufacture home-made missiles, destroyed a factory producing rubbish bins, and set ablaze market shops and stalls. Twelve Palestinians were killed, seven of them fighters, and 65 were wounded. But, within hours, four more rockets were fired into Israel.

Palestinian leaders fear a darker purpose behind the raid. They are convinced that Ariel Sharon in his second term will conclude business left unfinished from the first, wiping out the lingering remnants of the Oslo peace process. This would include the forcible exile of Yasser Arafat from the West Bank, and a reconquest of Gaza, the last redoubt of Palestinian Authority (PA) rule. Moreover, they believe that a war against Iraq could provide Mr Sharon with the cover he needs.

This was the urgency that propelled them to Cairo. The meeting, which had been three difficult months in preparation, was the brainchild of Mahmoud Abbas (also known as Abu Mazen), Mr Arafat's de facto second-in-command both in Fatah and the Palestine Liberation Organisation. Mr Abbas has become a vocal critic of the *intifada*, arguing that its military and suicidal cast has strengthened Mr Sharon with his own people, lost support in America and Europe, and destroyed the PA.

To put matters into reverse, Mr Abbas has called for an end to all Palestinian armed attacks, in the occupied territories as well as in Israel. A proposal along these lines, drafted by Egypt and approved by Mr Arafat, was put before the factions, and rejected. Some members of Fatah said that the most that could be agreed would be a ban on attacks inside Israel. Hamas, the main Islamist movement, said it would halt its suicide operations against civilians only in return for guarantees that Israel would halt armed incursions into Palestinian areas, and the assassination of Hamas militants. Egypt said it would work to extract such guarantees, but Shaul Mofaz, Israel's defence minister, ruled them out.

Instead he gave warning that, should the rocket attacks continue, Israel would deepen its military thrusts, including “the option of capturing the area of the Gaza strip”. Meanwhile, his army is carving out big “security zones” throughout the strip, squeezing its 1.2m Palestinians into five disconnected enclaves, reducing at least 80% of them to penury. This follows the lines of Mr Mofaz's initial policy in the West Bank, when he was army chief of staff. Since that ended with the Israeli army in most West Bank towns, and the PA dismembered, the Gazans, without much faith, are busy digging those trenches.

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Jordanian press censorship

The Prophet and his libido

Jan 30th 2003 | AMMAN
From The Economist print edition

A paper that dipped into Muhammad's sex-life is banned

TIME was, long ago, when Muslim commentators delved with tabloid nosiness into the public and private life of the Prophet Muhammad. Bukhari, considered the most authentic of the early collectors of the Prophet's sayings, revelled in the ins and outs of who slept with whom, when and where. No longer. When *al-Hilal*, a small Jordanian weekly, published accounts, based on Bukhari, of the Prophet's sex-life, the result was shock and horror.

This week, three of *al-Hilal*'s journalists were hauled, chained and caged, before a state security court and tried for defaming the messenger of God. An army general had earlier closed the paper down under a draconian decree, introduced after the September 11th attacks. This new sanctimoniousness, said officials, was a precaution to ward off a hue-and-cry from Jordan's Islamists, already restive over King Abdullah's hands-off approach to the looming war on Iraq. Instead, the government's action encouraged the Islamists.

Within days of the banning, the main Islamist party, the Islamic Action Front, issued a hellfire *fatwa* denouncing the jailed journalists as apostates, even though one of them is a Christian. Little matter that, as the journalists told the court, they had selected their quotes from books licensed by Al Azhar, the Cairo-based font of Islamic orthodoxy, and on sale all over the kingdom. “The Prophet was a man of religion not sex,” pronounced a former religious-affairs minister prissily.

The paper had quoted companions of the Prophet recording that Gabriel, the angel of revelation, came to Muhammad, then in his 50s, and revealed an unclothed Aisha, aged 6. When the marriage was consummated three years later, said the paper, Aisha so thrilled the Prophet that his libido soared from the “least of men” to the strength of 40. She teased her conjugal rivals that she was favourite because she alone had been a virgin, and the Prophet preferred “to eat fruit from trees ungrazed”.

Modern scholars draw a distinction between the Meccan period, when the Prophet stayed faithful to a widow, Khadija, until her death, and the Medinan period, when he acquired his own city state, and took a young wife about once a year, having nine when he died. “If I say Muhammad was hyper-sexual, I'm not criticising the faith,” said *al-Hilal*'s publisher, Ahmed Salama. “But we've stopped worshipping God, and now worship his servants.”

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Côte d'Ivoire's shaky accord

A pact is signed

Jan 30th 2003 | PARIS
From The Economist print edition

But the army rejects it

Get article background

Reuters

“WELL, I didn't exactly expect them to clap,” said Guillaume Soro, the 30-year-old political leader of the Patriotic Movement of Côte d'Ivoire, a rebel group. He was referring to four days of violent riots in Abidjan, the commercial capital, that erupted when he announced that two of his brother rebels were to take charge of the ministries of defence and the interior. Many government supporters think this a humiliating concession to a bunch of post-adolescent terrorists, and furiously reject the peace accord, signed in Paris on January 25th, of which it is apparently part.

Côte d'Ivoire, once West Africa's most stable and prosperous nation, has been split in two and roasted by civil war in the past four months. Only the interposition of French troops between rebels in the north and the regular army in the south stopped the country from disintegrating.

Some argue that, without the French blocking the way, the rebels would have captured Abidjan and toppled the government. But pro-government mobs do not see it that way. Convinced that France has bullied the president, Laurent Gbagbo, into surrendering too much power to the rebels, they have attacked French people and called, implausibly, for America to come to the regime's rescue.

In truth, the peace deal is Côte d'Ivoire's best hope of extricating itself from a war that could otherwise turn genocidal. Over the past decade, Ivorian politicians have inflamed ethnic and religious grievances to the point that the country could fall apart. Mr Gbagbo may be the elected president, but few outside his own ethnic group see him as legitimate. Fourteen out of 19 candidates were barred from standing at the poll he won in 2000. Many Ivorians have since been branded “foreign” and disfranchised. This is the root cause of the war, which pits mutinous soldiers from the northern, Muslim half of the country against southern Christians—with a tribal militia from the west confusing matters.

Mr Gbagbo knows he has lost control. “Let's face it,” he said, “I didn't win the war. If I had, I wouldn't be [at the peace negotiations] now”. So he seems prepared to become, in the improbable words of one analyst, “like the queen of England”, a weak head of state with a powerful prime minister. Under the terms of the pact, rebels and opposition parties are to be given a large share of power. Discriminatory nationality laws are to be revised, and fresh elections held. As a carrot, the European Union will give planeloads of aid to a government of national unity.

But there is a big problem. The army, which is to be temporarily disarmed and then re-integrated with the rebels to form a new, united force, refuses to accept the deal. Many officers believe that the French stopped them from crushing the rebels, and most bristle at the idea of young mutineers swanning into top government jobs, flashing the new Armani jackets that the war has bought them.

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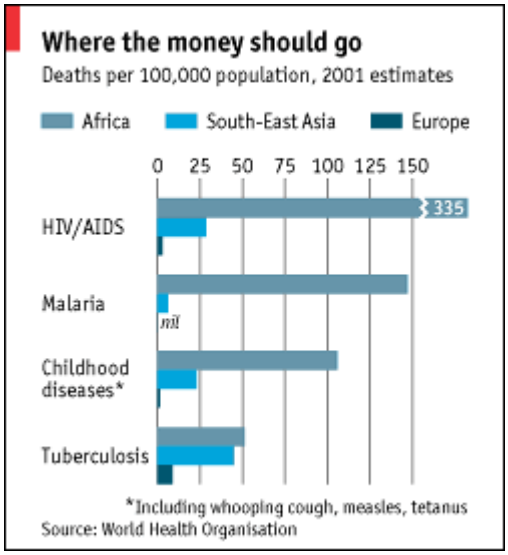
Health care in poor countries

A shower of lifesaving dollars

Jan 30th 2003
From The Economist print edition

Billions from Bush, and a new head for the World Health Organisation

Get article background



MONEY cannot solve all problems, but it helps, as millions of Africans turned away from crumbling hospitals for want of a two-dollar admission fee will attest. So George Bush's pledge of $15 billion over five years to fight AIDS in poor countries, made during his state-of-the-union speech on January 28th, was met with delight. Two-thirds of this money is new. And to put it in perspective, $15 billion is equivalent to 93% of the combined annual health expenditure (public and private) of the 14 mostly-African countries which Mr Bush said will be the "focus of the initiative".

These 14 countries are crippled by AIDS, and most of them are also wretchedly poor. (Two middle-income countries, South Africa and Botswana, are included because such a high proportion of their people are HIV positive.) The money is to be divided between governments and private groups, to build "a comprehensive system for diagnosing, preventing and treating AIDS".

Mr Bush's announcement has overshadowed another piece of health-related news that was set to disappoint many Africans. Given that Africa has the world's worst health problems (see chart), many were expecting the new head of the World Health Organisation (WHO) to be an African with a medical degree and excellent political connections: Pascoal Mocumbi, the prime minister of Mozambique. Instead, on January 28th, the WHO picked a South Korean: Lee Jong-wook, now head of the WHO's programme against tuberculosis.

Dr Lee brings an insider's knowledge to the job, having worked at the WHO for the past 19 years. But sceptics wonder if he has either the political nous or the grandeur of vision to maintain the momentum that was built up by his predecessor, Gro Harlem Brundtland, a former prime minister of Norway, whose connections and forceful personality helped to push health to the top of the development agenda.

One problem he faces is that the WHO is too thinly spread, worrying about issues from "economy-class syndrome" (when passengers on long flights develop blood clots in their legs) to international tobacco control. Instead, it needs to concentrate on the biggest killers in the countries least able to cope without assistance. That means fighting AIDS, tuberculosis and malaria, especially in Africa. The WHO works to a tight budget so Mr Bush's cash should help the cause, quite a bit.

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France's foreign policy

Ever awkward, sometimes risky

Jan 30th 2003 | PARIS
From The Economist print edition

Why France continues to annoy the United States

Get article background

THE president, apparently in a fit of pique, in October abruptly postpones a long-planned summit with Britain. The agriculture minister criss-crosses the European Union to sabotage the European Commission's plan to reform EU farm policy. The foreign minister last week enrages the United States by implicitly threatening a veto at the United Nations over any assault on Iraq. Such is the behaviour of France over the past four months—and doubtless there is more to come.

Next week, for example, a reconvened summit with the British (previously postponed thanks to a row between Tony Blair and President Jacques Chirac over that aborted farm reform) takes place just as France again has enraged the British (and many others besides) by inviting Zimbabwe's President Robert Mugabe to an impending Franco-African summit in Paris. Mr Mugabe's murderous campaign to squash his black opposition and steal white farms makes him a British *bête noire*, and the EU has banned him from visiting any part of the Union, but the ban runs out on February 18th, albeit that it is expected to be promptly renewed. The French say they have asked him to their conference, starting on February 19th, in the cause of bringing peace to the Congo. What else, yawn the cynics, is new?

France has been an awkward member of the western alliance ever since the end of the second world war, witness a string of diplomatic clashes with America over the Suez campaign in 1956; over France's colonies in North Africa and elsewhere; over France's insistence on its own nuclear *force de frappe*; and over its decision to leave NATO's military structure. Witness, too, General de Gaulle's veto on British membership of what is now the EU.

But all that is relatively ancient history. Why is President Jacques Chirac, heir to the Gaullist tradition, now so keen to revive its mannerisms? One reason may be personal. Until the French left lost the general election last June, the centre-right Mr Chirac had spent five years in a loveless “cohabitation” with a Socialist government. Now he is free to release his pent-up energy and fulfil his re-election promises to “make a united Europe our horizon” and to “do everything to resolve international conflicts”—free, of course, to fulfil those promises on his own terms as the EU's senior leader.

A second reason is that Mr Chirac, in common with virtually all French politicians, is uneasy with the concept of an American “hyperpower” (the word was coined by the Socialists' foreign minister, Hubert

Védrine) that has no need or (in French eyes) no willingness to listen to the advice of lesser powers. Mr Chirac is not instinctively eager for a supranational EU; like De Gaulle, however, he sees a united Europe as a necessary counterweight to the American hegemon. (“What is the point of Europe?” asked De Gaulle. “It must serve to prevent domination either by the Americans or by the Russians.”)

In that French sense, Britain is an untrustworthy European, since its first reflex is to side with America. Indeed, that reflex is as true with the professedly pro-European Tony Blair as it was with his Eurosceptic predecessors, despite a Franco-British defence agreement signed by Mr Blair at St Malo in 1998. In their hearts, the French saw that accord, along with plans for an EU rapid-reaction force, as a step towards creating a Europe-only alternative to NATO. Britain, however, worried that such an alternative might weaken NATO and lead to American disengagement from Europe. The consequence now, with little to show for the St Malo accord, is disappointment on both sides of the Channel.

It has often worked—in the past

The third reason is that being awkward has often paid dividends. After all, it enabled De Gaulle's France to “punch above its weight”, for instance by boycotting meetings of European ministers in 1965, so forcing its partners in the then-European Economic Community to recognise a national veto even when Europe's treaties demanded decisions by a majority vote.

The question is how to ensure that being awkward will still pay dividends when the EU ups its membership from 15 countries to 25 and when American military and technological power is greater than ever. In short, how to be relevant—a problem that became humiliatingly obvious to France when the Americans virtually ignored its allies' offers of help against the Afghan Taliban in October 2001, despite the allies' first-ever invocation of the NATO treaty's article 5, namely that an attack on one member, in this case on the United States, is an attack on all.

France has three answers to the challenge. One is to underline Mr Chirac's declared view that “war is always the worst solution”, especially in the Middle East. America's recent neglect of the Arab-Israeli dispute, so the French argue, is bound to lead to more anti-western terror; a war against Iraq will only worsen the problem.

The second answer is France's strong belief that multilateralism is a better guarantee of a stable world than unilateralism. The French acknowledge, of course, that America can win on its own a war against Iraq—but winning the peace will mean a sustained effort for which America on its own may, fear the French, have neither the patience nor the means.

The third method is the one used by every president of modern France: the forging of a common European policy shaped, as much as possible, to satisfy France's interests, in particular by persuading Germany to take its cue from France. Over time, it is this last effort which may prove the most significant. Look carefully through the joint Franco-German contributions to the convention now meeting in Brussels to design the EU's future, and there is a commitment to decide foreign policy issues by majority voting.

Losing independence?

On the face of it, this is an about-turn by France, which has always jealously guarded its independence (and so its veto) in Europe's so-called common policies on foreign affairs and defence. In fact, the EU's Treaty of Amsterdam in 1997 had already whittled away a need for unanimity, with France and others talking about “coalitions of the willing and able”. By allowing “constructive abstention” for those who by nature or constitution would oppose any military intervention, the treaty made sure that powerful players, such as France and Britain, could not be stymied.

Now, by endorsing majority voting, France satisfies Germany's federalist instincts while giving up little of substance: after all, France will surely muster a majority for most of its foreign-policy and military wishes, yet preserve its own right to go ahead unilaterally (shades of Mr Bush's America), as in its dispatch of troops last September to an ex-colony, Côte d'Ivoire.

But in the meantime, there is Iraq. Ever since President Bush began talking of regime change and the disarming of Iraq, France has insisted that the road to Baghdad must be via the UN. Prompted also by Mr

Blair, Mr Bush has so far stayed on this multilateral track, as in the UN's Security Council resolution 1441. However ambiguous its wording, France hailed the resolution as its own diplomatic victory.

Is France now, however, about to suffer a diplomatic defeat? Arguably Dominique de Villepin, France's foreign minister and long-time adviser to Mr Chirac, made a mistake when, after a UN meeting on January 20th supposedly on terrorism, he declared: “If war is the only way to resolve this problem, we are going down a dead end. Already we know for a fact that Iraq's weapons of mass destruction programs are being largely blocked, even frozen. We must do everything possible to strengthen this process.” At which point, he added that France would remain “true to its principles, to the very end.” Since Colin Powell, the United States's secretary of state, viewed by the French as a sane and lonely moderate in the administration, had been at the same meeting, Mr De Villepin's remarks amounted to a diplomatic ambush for no apparent reason. Why embarrass, and so weaken, a potential friend?

Whatever the reason, France is playing a risky game. Threatening to use its UN veto may persuade America to give the arms inspectors more time. But if the veto is used, and American goes ahead regardless, the veto and the Security Council system suddenly become meaningless—and France's claim to be the guardian of multilateralism may look empty. Which is why it is still quite likely that France, in the end, will back an American war, especially if it comes a bit later rather than sooner.

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Central Europe and the United States

We still rather like the Americans

Jan 30th 2003 | PRAGUE AND WARSAW
From The Economist print edition

Feelings about the United States are warm but changing

A CLUTCH of conservative parties in central Europe recently launched a joint attack on anti-Americanism in the region. It was left-wing governments, they said, that were threatening “Euro-Atlantic civilisation” by spreading hatred of the United States.

Really? Poland and Romania, the region's two most populous countries, are both run by ex-communist governments that are also probably its two most pro-American ones. Although Poland's prime minister, Leszek Miller, was in his country's last communist-era Politburo, it was he who happily gave the go-ahead, last month, for the largest purchase of American military hardware ever made by a former Warsaw Pact country. In so doing, his government annoyed several European countries by turning down their companies' bids in favour of a fleet of American F-16 fighters costing $3.5 billion.

“Europeans should buy European,” muttered a French businessman, whose Mirage 2000 was an unsuccessful bidder. “This decision was made purely on political grounds,” moaned an advocate of the Swedish-British Gripen fighter that is cheaper than the F-16 but just as high-tech. The Gripen bid included an offer to build an assembly plant in a depressed part of Poland, with knock-on jobs for up to 50,000 people. But the Poles reckoned that failed to outweigh the apparent advantage of ensuring continued American industrial-military engagement in the region.

Most people and governments in central Europe remain instinctively pro-American. Tales of émigrés returning from across the Atlantic, the enduring potency of the American dream (not to mention its pop culture), a residual fear of the Russians and a consequent desire to join NATO: these all still foster friendly feelings towards the Americans. A trio of central European countries—Poland, Hungary and the Czech Republic—are already in the alliance; another seven have been invited to join, probably in 2004. But the biggest reason for pro-Americanism is still sheer gratitude. The Americans did most to win central Europe's freedom from the Russian yoke, then did much to bankroll the first years of the post-communist transition.

Still, things do change. In 1990, the Stars and Stripes was most visible amid foreign flags. Money-changers did most of their trade in dollars. Street vendors sold American jeans. Nowadays, the flags are more often the EU's blue and gold. Jeans are more likely to be bought with credit cards issued by European banks in shopping centres with names like Europark and Europlex. America has become less prominent in business and in investment. EU countries account for three-quarters of the region's trade. People in once-communist countries may still like the Americans. But they increasingly also like being Europeans.

Where American influence still prevails is in defence. In this regard, most of the EU's new entrants are likely to be closer to Britain than to France. But in foreign policy the former communist countries look closer to the French and the Germans. Whatever their governments say, most people in central Europe are loth to encourage the Americans to bash Saddam Hussein, especially without a new UN mandate. Even the Poles, who are the region's most martial nation as well as its most ardent pro-Americans, are reluctant to endorse an American attack; a recent opinion poll found that only 4% thought the United

States should go ahead on its own.

Public support for American foreign policy has become most tepid in the former Austro-Hungarian parts of Europe, including Slovenia, Croatia, Slovakia and the Czech Republic, where German influence is increasing. Although the historical memory of the Soviet invasions of Hungary in 1956 and Czechoslovakia in 1968 still stirs pro-American feelings, a more recognisably European mindset has emerged since the early 1990s. Many editorials in the region's papers depict President George Bush as a lightweight and accuse his administration of being driven by a desire to get hold of Iraq's oil. Though the Czechs' outgoing president, Vaclav Havel, this week joined other European leaders in signing a letter praising the Americans, only 13% of his compatriots say they would endorse an American attack on Iraq without a UN mandate.

This is not to say that anti-Americanism in the former Austro-Hungarian empire is anything like as strong as it is, say, in France and (at least over Iraq) Germany. There are few votes to be won by bashing Mr Bush. And the idea of a European defence identity still attracts little enthusiasm; NATO is still the name of the new game. The Czechs, moreover, are keen to shed their reputation in the Pentagon as fair-weather friends: soon after their country joined NATO, in 1999, its government was reluctant to let American aircraft fly over it on the way to bomb Serbia. More recently, at the Americans' request, the Czechs have been quick to beef up a 250-strong chemical-warfare unit in Kuwait.

The Americans' influence may be more durable in the poorer parts of the old Soviet empire. In November Mr Bush got a wildly joyful welcome in Romania, where he addressed a huge crowd. These days he would be unlikely to address a similar open-air rally in France or Germany. Romania, by contrast, has strongly supported his policy since the attacks of September 2001; the Romanian intelligence service has passed on useful information about al-Qaeda, and Romania's foreign minister, Mircea Geoana, a former ambassador in Washington, is fiercely pro-American.

Elsewhere in central Europe, pro-Americanism is less strong than it was. If the Americans do fight Iraq, most of the bigger countries will rally round. But they are slower to see the Americans' case than they would have been a decade ago.

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Islamist terror in Europe

Tackling a hydra

Jan 30th 2003
From The Economist print edition

Europeans are rounding up a lot of Islamic terrorists—but more are at large

ON THE face of things, Europeans have recently been doing rather well at sniffing out and grabbing suspected Islamist terrorists. The biggest batch to date was scooped up on January 24th in Spain, when some 200 anti-terrorist policemen, after tip-offs from the French and British intelligence services, raided a dozen flats in towns in the north-eastern province of Catalonia and picked up 16 Arabs, all but one from Algeria, and found, among other dodgy items, bomb-making devices, false passports and nasty chemicals.

The day before, Italian policemen had swooped on a farmhouse near Venice, where they arrested five Moroccans, allegedly also found with explosives and chemicals, plus maps of NATO bases in Italy and the London underground. So far this year the British police, in five separate raids, one on a London mosque notorious for the virulence of its leading preacher, have arrested 26 suspects, nearly all of them also from North Africa.

Since September 11th 2001, around 200 Muslim terrorist suspects have been arrested in Europe—more than in any other region—including more than 50 in the past two months. Some 150 have been arrested in the United States, around 100 in the Middle East, about 50 in North Africa and 40 in Latin America. Thanks to the raids in Spain, Italy and Britain, at least one big terrorist attack either on a military base or on public transport somewhere in Europe may well have been foiled.

Snoop and swoop

Notable arrests of suspected al-Qaeda terrorists in Europe*

Country where arrested	Number of known arrests	Main nationalities of those arrested	Known number charged with terrorist offences†
Belgium	2	Tunisian	2
Bosnia	7	Algerian	none‡
Britain	37	Algerian/ unspecified North African	24
France	29	Algerian/ French	7
Germany	8	Algerian	7
Italy	33	Egyptian/ Moroccan/ Tunisian	17
Malta	1	Tunisian	1§
Netherlands	12	Unspecified	6
Spain	47	Algerian	24

*Since September 11th 2001
†Includes *mis en examen* (under formal investigation) in France
‡Suspects in US or NATO custody §After extradition to Italy

Sources: Reuters; *The Economist*

Time for a sigh of relief? Not a bit of it. There may be 15m Muslims in western Europe and the Balkans (1.3m in Britain, 3.2m in Germany, 4m-5m in France), not to mention perhaps another 15m in Russia. Turkey's 67m people are mostly Muslims. Only a minority of Muslims favour al-Qaeda's aims, let alone its methods. But a dedicated core of perhaps 1,000 or so living in the West might be willing to die for their cause by blowing up themselves and as many infidels as possible on the way.

Who are these suicidal zealots? It would be unwise to lump them together under the heading of al-Qaeda. That network of diehards, financed originally by Osama bin Laden, came mainly from Saudi Arabia and other parts of the Arabian peninsula. Most of the 19 hijackers in September 2001 were Saudis.

Most of the people recently arrested in Europe, on the other hand, come from North Africa, with Algerians to the fore. Many of those detained may be connected to the Salafist Group for Call and Combat, an offshoot of Algeria's Armed Islamic Groups, which has been wreaking havoc in Algeria since 1992, when the army-led government refused to let a relatively mild Islamist party take power after it had won an election. These embittered extremists, many of them in exile in the West, have been active since well before the attacks of September 11th. Some 240,000 Algerians, quite a lot of them with radical Islamist leanings, are thought to have fled Algeria in the past decade.

What may be new, however, is a possible link, now under scrutiny by western intelligence services, between North African Islamic radicals, particularly Algerians, and al-Qaeda. The French, in particular, say that al-Qaeda has also been keen to involve itself more heavily with the Chechens in their war against Russia. Al-Qaeda's aim, it seems, is to use such groups, already well-established and with

disciples scattered through western countries, to revive its own battered network.

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Italy, its prime minister and the law

Tipping the scales

Jan 30th 2003 | ROME
From The Economist print edition

A setback for Silvio Berlusconi in court signals more attacks on magistrates

EPA

Praying, again, for a statute of limitation

SILVIO BERLUSCONI, Italy's prime minister, is a determined man. Since winning power in May 2001, his right-wing coalition has been single-minded in enacting legislation to help stop the criminal trials that the prime minister and a close friend have been facing. Mr Berlusconi has also loudly accused magistrates of being politically biased against him. This week he said he was the victim of “incredible judicial persecution”.

The cause of his latest grief is a crucial ruling that his supporters naturally claim as further proof of bias. The court, whose reasoning has yet to be published, said that a trial in which the prime minister stands accused of bribing judges should continue in Milan.

Lawyers for Mr Berlusconi and his friend, Cesare Previti, an MP, had asked for two judge-bribing trials to be moved from Milan on the ground that neither politician would have a fair trial there. Messrs Berlusconi and Previti are together accused of bribing judges in one trial; Mr Previti is a defendant in two other judge-bribing cases.

The court's verdict was unexpected because last November the government had rushed an urgent measure through parliament, known as the Cirami Law after its sponsor, Melchiorre Cirami, a Sicilian senator. The law provided new grounds for the prime minister and his friend to seek their trials' transfer. Had the trials been moved, the crimes of which the pair stand accused would probably have become time-barred by statute of limitation, so preventing verdicts from being reached.

The supreme court's decision reduces the chances of that happening. The judge-bribing trials, suspended since last November, will start up again soon. The trial in which Messrs Berlusconi and Previti are co-defendants is now expected to finish this year, perhaps by the summer. Mr Berlusconi said last year that he would not resign if the court in Milan were to find him guilty. The case is almost certain to go all the way to the supreme court, a process that could take another three years. The verdicts in Mr Previti's other two cases are imminent. Last October, the prosecutor asked that, if found guilty, Mr Previti be sentenced to 13 years in jail.

The supreme court's decision is likely to rouse the government to further attacks on the magistracy. Even before the court's ruling, if speeches at the recent opening of the judicial year were a measure of what is in store, acrimony over the justice system was set to worsen. Prosecutors in Palermo declared that the government's attacks on magistrates offered dangerous encouragement to the Mafia. In protest against political intimidation, magistrates in courts across the country carried copies of the constitution to ceremonies that marked the judicial year's start.

Politicians on the government's side had, however, already geared up to assail magistrates involved in investigating and prosecuting political corruption. When parliament reassembled after its Christmas break, it voted to set up a commission into the *tangentopoli* (bribesville) scandal that broke 11 years ago and still rumbles on. Then, three days after the judicial year began, the justice minister said that disciplinary action would be initiated against “politicised” magistrates. Mr Berlusconi says that justice will be on the agenda for the whole year—and he sets the agenda.

In any event, other trials may keep criminal justice in the news. After being caught last April, a Mafia boss decided to spill the beans and has been testifying in court. Antonino Giuffre had been a top *capo*

(boss) close to Bernardo Provenzano, Sicily's boss of bosses who has been on the run for over 30 years. Mr Giuffre started to co-operate with prosecutors in June. In January, he gave evidence in the trial in Palermo of Marcello Dell'Utri, a senator and co-founder of Mr Berlusconi's Forza Italia party. A close friend of the prime minister, he is being tried for association with the Mafia.

Mr Giuffre says that, in its search for new and reliable political connections in the early 1990s, Cosa Nostra's *capi* were optimistic that Mr Berlusconi's party would provide the guarantees they wanted. On January 23rd, Mr Giuffre testified in the trial of Gaspare Giudice, another member of parliament for Forza Italia, who is also accused of association with the Mafia and had already been indicted when he stood for election in 2001. The verdicts in these cases will hinge partly on whether the courts find the evidence of *pentiti* (supposedly repentant Mafiosi) like Mr Giuffre credible. A verdict in Mr Dell'Utri's trial is expected this year.

Italian politicians benefit from a system that gives defendants more guarantees than in most countries. They can turn to two levels of appeal before sentences are definitively handed down. And time may still be on Mr Berlusconi's side. Many Italians are bored by his protracted legal problems. Most Italians view them through the prism of their own politics. By the time a definitive verdict is reached, their boredom and partiality are hardly likely to change. The extraordinary feature of the trials of Mr Berlusconi is that, in most European countries, they would have ousted him from office, for ever or at least pending a verdict. In Italy they have become a normal part of the political scenery.

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Charlemagne

Fear of America

Jan 30th 2003
From The Economist print edition

Ah, those old Europeans' old anti-Americanism

EUROPEANS are not anti-American, explains an aristocratic British writer and politician; it is just that they are “frightened that the destinies of the world should be in the hands of a giant with the limbs of an undergraduate and the brain of a peahen.” The United States, declares an eminent French philosopher, has “rabies”; Europe must step away or “we shall be bitten and infected next.” Either of those comments could have been made last week. In fact they were both uttered in the early 1950s, by Harold Nicolson and Jean-Paul Sartre respectively.

A direct line of descent links the fear and loathing of the United States expressed by the likes of Sartre and Nicolson to contemporary comments such as the recent description of the American government by a British playwright, Harold Pinter, as a “bloodthirsty wild animal” or the pronouncement by Jacques Derrida, Sartre's heir as hero of left-bank *philosophes*, that the United States is the world's “leading rogue state”. Then as now, the American-bashing views of such intellectuals are extreme—but by no means entirely unrepresentative. Pinterite visceral hatred of the United States is not too common in Europe. But the feeling that American policy towards Iraq is aggressive and dangerous is pretty mainstream. American officials attending the recent World Economic Forum meeting in Davos were taken aback by the wave of criticism they got—from corporate bosses, not from long-haired lefties.

Even in countries whose governments are well-disposed to the Bush administration and favour American policy on Iraq, opinion polls show a lot of public unease. Only 30% of Britons, according to one poll, back a war unconditionally; some 87% of Spaniards, according to another, are against. Once again, the echoes of past arguments are there to be heard. As an American historian, William Hitchcock, points out in a new history of post-war Europe (“The Struggle for Europe”), “Throughout the 1950s, polls showed that a third to one half of the public in Britain, France and Italy wished to remain neutral in the cold war.”

Fear that the United States would drag Europe into war has recurred at regular intervals ever since. In 1965 General de Gaulle proclaimed that the “United States is the greatest danger in the world today to peace”. The Vietnam war prompted demonstrations across Europe. The deployment of American cruise missiles in Europe under Ronald Reagan provoked a renewed European spasm of alarm. George Bush's talk of an “axis of evil” has been widely denounced in Europe as simple-minded, as was Mr Reagan's talk of the Soviet Union's “evil empire”. As Mr Bush himself might put it, we've seen this movie before.

Doubtless the movie would be released under different titles on either side of the Atlantic. In the United States, it would be “Eurowimps Four: They Never Learn”. In Europe, “Dr Strangelove—The Return” would better capture the popular mood. As with all remakes and sequels, new elements have been added to the script. The cold war's end removed Russia's military threat to Europe and so let Europeans feel that America's fight is not theirs. Germany, now it is no longer on the front line of the confrontation with the Soviet Union, has moved from being one of Europe's most staunchly Atlanticist countries to being the most instinctively neutral. America's new doctrine of preventive war in the struggle against terrorism is easier to portray as unwarranted aggression than was containing the Soviet Union.

Now the United States itself has been attacked, Americans are more likely to feel betrayed by European criticism, adding an extra touch of bitterness to transatlantic exchanges. American neo-conservative talk of “Euroweenies”, charges of European anti-Semitism and descriptions of the French as “cheese-eating surrender-monkeys” (to quote a recent article in the *National Review*) show that when it comes to invective the Americans can give as good as they get.

Do all these differences mean that the new movie about Euro-American relations will end differently from all previous episodes? In the cold war, despite all the tensions, there was always a happy ending: the

Atlantic alliance stayed intact and emerged triumphant. Many analysts assume that France's threat to veto military action against Iraq at the United Nations is just an effort to keep viewers watching until the last frame, before returning to the familiar script. In the end, they reckon, France will go along with a war and even Germany will mute its opposition. Others think that too sanguine, and reckon that Jacques Chirac, France's president, is determined to resist American pressure and to isolate Tony Blair, the British prime minister, within Europe.

New versus old?

That last ambition may be too much of a stretch. For while it is easy to talk of a split between Europe and the United States, Europe's own divisions are just as real. It is not just, as Donald Rumsfeld, the American defence secretary, suggests, a divide between the “new Europe” of pro-American central Europeans and an “old Europe” represented by France and Germany. Even the old bit is divided, with the Spanish, Italian, Portuguese and Danish governments closer to London's viewpoint than to those in Paris and Berlin.

Yet Mr Chirac and Germany's chancellor, Gerhard Schröder, know that “standing up to America” plays well at home. So does portraying the United States as a nation of crazed gunslingers and religious fanatics. But Europeans should remember that these stereotypes were consistently peddled in the cold war—and were consistently wrong. Who in Europe now seriously argues that it was a mistake to side with the United States in the struggle against the Soviet Union? And who could dispute that the phrase “evil empire” was actually a rather succinct summary of the facts rather than florid hyperbole? Those Europeans who accuse Americans of lack of sophistication and an ignorance of history might benefit from a brief history lesson themselves.

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Asylum

Bordering on panic

Jan 30th 2003
From The Economist print edition

Murdo MacLeod

Government and opposition agree that asylum policy is broken; neither of them knows how to fix it

THERE used to be two main positions about immigration: sensationalism or silence. Not any more. Worries about Britain's clogged and scandal-ridden asylum system, particularly its abuse by terrorists, are shifting the debate into new areas. On January 26th Tony Blair said that Britain might re-examine its commitment to the European Convention on Human Rights, until now a sacred text for Britain's left.

The furore combines three separate issues. One is a serious question about the nature and extent of mass migration into Britain. Although not huge by European Union (EU) standards, Britain's current level of net inflow from non-EU countries, at around 100,000 by the most cautious estimates, and 250,000 by others, is high by historical standards. The Ugandan Asian refugees accepted by Britain in 1972, for example, amid considerable fuss, numbered just 30,000.

Immigration brings potential pluses (new skills, cultural diversity, cheap labour) and minuses (poverty, disease, social tensions). There are reasonable disagreements among demographers and economists about the net cost or contribution of different kinds and sizes of inflows. But few could argue that the current haphazard and unplanned influx is ideal.

This leads on to the second issue—the asylum system, which has become, by accident rather than design, the main way for people from poor countries to move to Britain. The international rules on asylum were drafted in a different age, when memories of the shameful treatment of refugees from Nazi Germany were still fresh, and migration by other means was easier.

They did not foresee a situation in which tens of thousands of people would turn up having destroyed their identity documents, making unverifiable claims of persecution, whose cases would be processed by a very slow and toothless bureaucracy, with multiple layers of appeals, often aided by determined, publicly financed lawyers. In the past ten years, the numbers of asylum-seekers have shot up, from fewer than 4,000 in 1988 to more than 83,000 last year.

Most of the 350,000 asylum-seekers who have come to Britain since 1998 have stayed here. Typically, around a fifth gain asylum and another sixth are given “exceptional leave to remain”. Most of the rest disappear from the system. Deporting them is very difficult: countries such as China simply refuse to take them back. Most airlines refuse to carry them on scheduled flights (deportees sometimes take all

their clothes off, or kick up such a fuss that the plane cannot take off).

A series of bizarre cases have shaken public confidence: a family from Lithuania (a peaceful and democratic country from which any refugee claim seems highly unlikely) took the government to court, complaining that accommodation provided by the state was not as nice as the large family house they had given up at home. One Labour MP has highlighted the case of an Afghan who fought for the Taliban and then was granted asylum in Britain when the regime fell. The same, in theory, would apply to Saddam Hussein.

Coupled with stories, often exaggerated, of the grants, loans and other help provided for asylum-seekers, and with discontent about the fraying of services such as health and education, the result is considerable public crossness. A victorious candidate of the far-right British National Party, who won a council seat in Halifax last week, focused his campaign on asylum-seekers. The home secretary, David Blunkett, said last week that society was like a “coiled spring”.

This is tightened by the third worry: terrorism. Some of the people caught in the police raids of the past month have been asylum-seekers, mostly from Algeria. The system at the moment makes security screening all but impossible. British people are understandably bothered by the idea that they are paying to shelter people who want to kill them.

Nobody has much idea what to do about all this. The government has been trying, with some success, to speed up the processing of asylum claims and make the bureaucracy more efficient. It has persuaded France to close the Sangatte refugee camp, which was a magnet for those trying to reach Britain by the Channel Tunnel. Rules could be a bit tighter and better enforced. But such measures tweak the system rather than fixing it.

The first big question is whether to change the law. Withdrawing from the Geneva Convention would be one possibility. This specifically prohibits governments from discriminating against asylum-seekers without documents—a rule which is now clearly being abused (more than 80% of asylum-seekers are without papers, according to the Home Office). Withdrawing from the European Convention on Human Rights—and then rejoining it with a derogation allowing exemptions to asylum policy on grounds of national security—would be another.

But both of these would be very controversial. Supporters of refugee rights are stunned that the prime minister, himself a barrister and married to one of the country's top human-rights lawyers, has even flirted with the idea. “The Oxford legal education has failed,” says Guy Goodwin-Gill, an Oxford law professor, caustically, referring to Mr Blair's studies at the university. And trying to opt out of one or two clauses would probably have little effect. If one loophole is plugged, human-rights lawyers would strive to find another.

The real issue with the law is not its wording, but the generous way in which British courts have interpreted it: plenty of appeals, for example, and a wide definition of persecution. Germany, for example, says refugees must prove that the state is persecuting them; in the British definition, it can be racist gangs, political movements, criminals or whoever.

Even if a different legal framework is a necessary condition, it is certainly not a sufficient one. There are plenty of lessons from abroad: Canada manages its adjudications with remarkable speed and efficiency. Germany sends some asylum-seekers back at the border. Denmark bans spouses aged less than 24—very off-putting for traditionalist Muslims. The Conservatives want all asylum-seekers locked up on ships pending their security screening. This, they say, has worked in the Netherlands.

But an effective deterrent would mean being really beastly—leaving asylum-seekers destitute, keeping them locked up in camps, as in Australia, or denying them access to public services. The tricky truth is that it is because Britain is an open, unbureaucratic and friendly society that migrants want to come. Making it a nastier place would be a high price to pay to deter outsiders; but it sounds depressingly as though that's what Britons may want.

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Tabloids

Spinners spun

Jan 30th 2003
From The Economist print edition

The tabloid press is losing patience with Tony Blair

GAINING the support of the tabloid press was one of Labour's biggest successes. “It's the *Sun* wot swung it,” trumpeted Britain's biggest-selling daily after Labour's election victory in 1997. Now things are changing. Amid the usual lively stories such as “Doctor Bodger Bent My Todger” (don't ask), the *Sun*, under its new editor, Rebekah Wade, is taking a noticeably sharper tone with the government, especially with what it terms a “crusade against asylum madness”. As well as running articles describing asylum-seekers as “a sea of humanity polluted with disease and terrorism”, it has gained nearly half a million readers' signatures on a petition on the subject. When the home secretary, David Blunkett, criticised all this as inflammatory, it responded with a front-page story questioning his sanity.

The country's other main tabloid, the *Daily Mirror*, is traditionally Labour's main asset in the popular press. It has largely ignored the asylum issue, but is now ferociously critical of Mr Blair, chiefly on Iraq (see picture). Recent *Mirror* articles have described President George Bush as a “moron” and, in all seriousness, compared America to Hitler's Third Reich. A front page this week showed Mr Blair with his hands dripping with blood.

The mid-market *Daily Mail* and *Daily Express*, meanwhile, offer little comfort. The always unloving *Mail* has shown even deeper loathing of Mr Blair than usual, running a big investigative campaign on his wife's entourage, and opposes the war. The *Mail* and the *Express* match the *Sun* for stridency in their criticism of asylum policy.

All this so far is more upsetting than alarming for the government, chiefly because of the lack of an effective opposition. The *Mirror* detests the Tories even more than Labour. The *Sun* seems to despair of the Tories. It has compared both their former leader, William Hague, and the hapless current incumbent, Iain Duncan Smith, to Monty Python's dead parrot. Some *Mail* journalists even toy with the idea of forming a new opposition party. Probably better not give up their day jobs, though.

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Victoria Climbié

Invisible girl

Jan 30th 2003
From The Economist print edition

The awful story of a murdered child exposes more depressing tales

PA

Victoria with her killer

IN 1999 Victoria Climbié came to Britain from the Côte d'Ivoire. Her great aunt, Marie-Thérèse Kouao, brought her, promising her parents she would make sure Victoria got a good education.

Victoria never went to school in Britain. Instead she was tied up and made to sleep naked in a freezing cold bath, wrapped up in a rubbish bag with her hands and feet bound. When she died, on February 25th 2000, she had 128 injuries on her body, including cigarette burns, scars where she had been lashed by a bicycle chain and hammer blows to her toes. She was eight years old.

Ms Kouao and her boyfriend, a bus driver called Carl Manning, were later found guilty of Victoria's murder. The government launched an inquiry into the events leading to her death, chaired by a former chief inspector of social services, Lord Laming. His final report, published this week, makes 108 recommendations, starting with the setting up of a National Agency for Children and Families.

Victoria's case was reported to three housing authorities, four social services departments, two police child-protection teams and a family help centre run by the National Society for the Prevention of Cruelty to Children. She was admitted to two hospitals because of suspected violence.

Yet Victoria herself was never even interviewed by social workers. Lord Laming heard of 12 points at which intervention could have prevented her death. “Not one of these required great skill or would have made heavy demands on time,” he said. “Sometimes it needed nothing more than a manager doing their job by asking pertinent questions or taking the trouble to look in a case file.”

This sort of bungling is depressingly familiar. There have been 70 public inquiries into severe child abuse in Britain since the end of the second world war, most of which have pointed the finger at failures of communication between police, hospitals and social services. But the circumstances of Victoria's arrival in Britain cast light on a less familiar problem too: the growing number of West African children who, for various reasons, are being brought into Europe without their parents.

Ms Kouao seems to have taken Victoria so that she could claim extra welfare benefits. She was clearly determined to get a child: Victoria was a late substitute for a girl called Anna, which is why the “daughter” on the passport used by Ms Kouao to enter Britain was given as “Anna”. Other children from poor countries who have been promised a better life by relatives are put to work as domestic slaves. Others still end up in prostitution or pornography.

In West Africa it is common for children of poor families to be brought up by richer friends or relations. These days that often means going abroad. Investigations by the BBC and UNICEF have shown how easy it is to get authentic documents to transport children who pose as the trafficker's son or daughter. Organised gangs across West Africa traffic in children with the collusion of government officials.

A report by the British Agencies for Adoptions and Fostering estimates that there are around 10,000 children, most of them West African, living in Britain, as Victoria did, with private foster parents. There could be more, since parents seldom register with local authorities. Most social services departments, the

report says, pay little attention to privately fostered children. Often they don't know they exist.

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Insurance companies

How many more Equitable Lifes?

Jan 30th 2003
From The Economist print edition

The worrying vulnerability of Britain's insurance companies

AS THE FTSE 100 stockmarket index slumped on January 27th to its lowest point since autumn 1995 after falling continuously for ten days, British insurers' share prices fell even further. Aviva and Prudential, two of Britain's largest insurers, lost 7.47% and 7.45% respectively on that day. The insurers' sufferings are especially worrying because their troubles have contributed to the fall in the markets, and because the more the markets fall, the more trouble the insurers are in.

British insurers are more heavily invested in equities than are those in any other rich country, so they are more vulnerable to falling share prices. In order to meet regulatory solvency requirements, they have been shedding unprecedented quantities of equities over the last three years, dragging down the market. Even so, they are still the largest single investor in the British equity markets, accounting for about 20% of its capitalisation.

Life assurers sold equities worth up to £25 billion ($38 billion) over the last year, says the Financial Services Authority (FSA), the insurers' regulator. Prudential started the trend when the market was still buoyant, selling shares worth an estimated £15 billion three years ago, says Ned Cazalet at Cazalet Consulting. Scottish Mutual made the switch two years ago, reducing the proportion of its assets invested in equities from 80% to 50%. Standard Life, one of Britain's more fragile companies, sold heavily in September last year. Equitable Life, the sickest of all the country's life assurers, got out of shares altogether. On average, life assurers now have about a third of their assets in equities compared with as much as four-fifths in 2000.

Yet a third of assets in equities is still a hefty chunk, and further falls in prices of equities must eventually hurt the industry. On January 28th Fitch, a credit-ratings agency, said that meeting regulatory solvency requirements would be increasingly difficult for all but the strongest British insurers. Sir Howard Davies, the head of the FSA, thinks that life assurers can cope with a slump of the FTSE 100 to 3,500 and many could handle a fall to 3,000. David Nisbet, an analyst at Merrill Lynch, says that companies would be at risk of breaching solvency requirements at around 3,200.

Whether that happens depends on whether the FSA is prepared to go on being flexible. In order to avoid forcing an even larger sell-off than has anyway happened, it has relaxed its so-called “resilience” test, which is intended to guarantee that insurers have enough assets to cover their liabilities, three times over the past 18 months. Critics argue that the test's changeability makes it pointless. The FSA argues that shifting the goalposts does not much matter because the solvency requirements are very conservative.

But if markets go on down, many smaller companies, and maybe some larger ones, are likely to breach even a more lenient version of the FSA's rules. Already life assurers have been hurting policyholders, shareholders, or both, in order to strengthen their capitalisation. Royal & Sun Alliance has closed its life funds to new business. Britannic is not handing out any bonus at all this year. Standard Life recently imposed penalties of up to 25% on early surrender of policies. Legal & General has penalised existing shareholders by issuing new shares. These measures are unpopular, but there's scope for plenty more, and therefore more suffering ahead for both shareholders and policyholders.

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Public finances

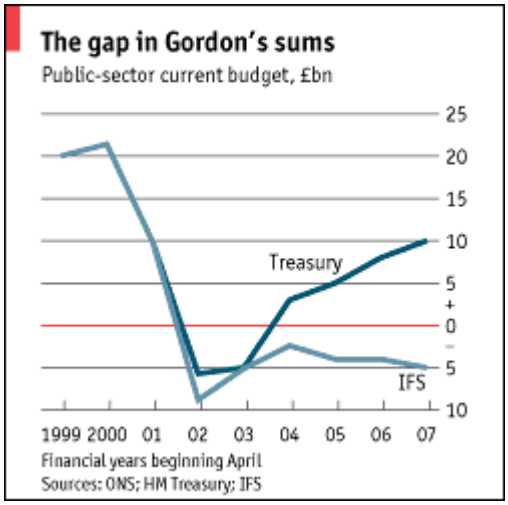
The future's red

Jan 30th 2003
From The Economist print edition

Why taxes will have to rise again

WHEN Gordon Brown presented his budget last year, he was keen to get the bad news out of the way as soon as possible after the 2001 election. He announced tax increases of £8 billion on employers and employees through higher national insurance payments, due to take effect this April. But since the last budget, the public finances have deteriorated sharply. It now looks increasingly certain that Mr Brown will be back for more before too long.

This week, the Institute for Fiscal Studies warned that tax increases of between £4 billion—equivalent to more than 1p on the basic rate of income tax—and £11 billion—more than 3p on the basic rate—will eventually be necessary. This gloomy assessment does not take into account the slump in share prices since the Treasury's latest projections for the public finances in November, even though this will depress revenues by a further £2 billion a year. The forecast carries more weight because the IFS does not assume lower economic growth than the Treasury, which is notably upbeat about the prospects for recovery this year and next. The European Commission warned on January 30th that the Treasury's budget forecast for 2003-04 was based on an optimistic assumption for growth, and that the budget deficit could approach 3% of GDP.



The IFS believes that Mr Brown will have to raise taxes because otherwise he will break his "golden rule" of borrowing only to invest. This means that the current budget account, which excludes net investment, must be in balance or surplus. The rule can be broken when there is an economic downturn. However, it must be met over the economic cycle, so that surpluses in fat years make up for deficits in lean years.

The financial years from spring 1999 to spring 2001 could hardly have been fatter. The government ran huge surpluses, which means that Mr Brown has plenty of scope to run deficits until the end of the current cycle, which is expected to run from 1999 to 2005. But he can't live on that fat for ever: from around 2005 he will need to raise more revenue to meet the golden rule. At a minimum, taxes will have to rise by £4 billion a year, says the IFS. If the Treasury wants to retain its usual margin of caution—not a bad idea given the shocks that can hit the public finances—they will have to go up by £11 billion.

Unsurprisingly, the Treasury's forecasts portray a happier future where taxes do not have to rise. The current budget account goes into deficit this year and next, but then returns to the sunlit uplands of surpluses. The main reason why the IFS disagrees with this projection is that it thinks that tax revenues will be less buoyant over the next few years. In particular, it is forecasting lower corporation tax receipts than the government.

Mr Brown can safely ignore such warnings about the public finances in his budget this spring. With the economic recovery still spluttering he would in any case not wish to raise taxes any more this year. But if the deficits on the current budget continue, a third Labour election victory in 2005 seems bound to be followed by another swingeing increase in taxes.

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NHS

Discontented doctors

Jan 30th 2003
From The Economist print edition

GPs are right to be fed up: reforms have been too focused on hospitals

NEVER has a government treated the National Health Service so generously. So why are Britain's GPs so unhappy that there are now severe shortages of them in some parts of the country?

GPs—short for general practitioners—get high marks, both at home and abroad. Britons are much happier with their family doctors than they are with their hospitals. Other countries admire the way GPs provide continuity of care and keep costs down by filtering access to more expensive hospital services.

But according to a survey published by the British Medical Association this week, recruiting them is getting harder and harder. Vacancy rates are over 10% in some areas. In Greenwich, in south-east London, 16% of posts have been empty for three months or more. John Chisholm, chairman of the BMA's GP committee, says that the workforce problem is worse than at any time since the early 1960s. He warns that if current trends continue, some areas will have no family doctors at all.

Part of the reason why doctors are disappearing from bits of Britain is the way funds flow. The amount of money a GP's practice gets is determined essentially by the number of people on his or her list. Doctors therefore tend to shun inner-city areas with high costs and falling populations. It is also more expensive for practices to hire doctors as salaried employees—a form of employment increasingly preferred by many young GPs—rather than as partners.

The survey's findings provide useful ammunition for the BMA as it enters the final negotiating round of a new contract for GPs which is intended to remedy some of the current problems. Under the new contract, resources will be linked to the patient rather than to the GP, and practices with less healthy patients or in high cost areas will get more cash than they do now. GPs will be rewarded to a much greater extent for the quality of the services they provide rather than the length of their list. The contract will be between the health service and the practice rather than the GP, which will allow much more flexible forms of employment not just of doctors but also of practice nurses.

The new contract should help, but it will not answer the doctors' more fundamental complaint. They feel they have not got their fair share of the extra cash pouring into the NHS. Although health ministers concede the importance of primary care, they have been fixated by the need to improve hospitals. According to the Audit Commission, spending on general practice (excluding drugs) has grown by 20% in real terms in the past ten years compared with an increase of over 60% on hospitals. Not for nothing was Labour's slogan at its last party conference in Blackpool “schools and hospitals first”.

This approach has been misguided, argues Nick Bosanquet, professor of health policy at Imperial College, London: “primary care can deliver the goods but has been stopped by lack of funding.” Professor David Haslam, chairman of the Royal College of General Practitioners, argues that GPs can relieve the strain on hospitals by cutting out unnecessary referrals and admissions. He calls for “a complete change in the way that GPs and hospitals work together which would involve much more blurring of primary and secondary care”. This would both cut costs and improve patients' experience by stripping out unnecessary duplication. As Labour ministers fret at the lack of progress their reforms have made in the health service, they should focus less on high-profile hospitals and more on family doctors.

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Constitutional reform

Any flavour but democratic

Jan 30th 2003
From The Economist print edition

The end to the idea of radical reform of the House of Lords is nigh

DURING its first term, the government's only reasonable claim to radicalism rested on its record on constitutional reform. Devolved assemblies were set up in Northern Ireland and Wales, while the Scots were given a more or less proper parliament. At the same time, Tony Blair initiated what looked like a cleverly-constructed two-stage process to get rid of the partly-hereditary, partly-appointed House of Lords and replace it with a second chamber that was, according to Labour's 1997 manifesto, "more democratic and representative".

Getting rid of the hereditary peers was easy. Agreeing on what should replace them has not been. After years of argument, the despairing government has now given the members of both houses of Parliament a free vote to decide on the composition of a reformed second chamber.

Among the seven options available, the one that is least likely to find approval is an entirely democratically-elected second chamber. The nearest to that democratic ideal that stands any chance at all is a proposal for 80% of the new house to be elected and 20% to be appointed, although most MPs who favour a democratically-elected element are expected to plump for a more circumspect 60/40 ratio. But a growing number of them and, it seems, nearly all the existing peers, have concluded that it may be best not to trouble the voters at all by going for a house that is 100% appointed.

That democratically-elected MPs should prefer to see their colleagues in the other house appointed is not as odd as it first looks. Election would give the second chamber a greater legitimacy, and that would give it more clout. Neither the government nor most MPs are keen to see any shift of power towards the second chamber. And Mr Blair, who on January 29th said that he favours an entirely appointed house, recognises that if the house were even partly elected, there would be a mismatch between its legitimacy and its power. The government has already determined that the reformed second chamber will be as toothless as the current one (which has limited power to delay and revise legislation). But with more legitimacy, it would eventually demand more power, however docile the political hacks chosen by party machines to stand for election.

It is not certain which way next week's vote will go. Labour MPs are torn between wanting to safeguard the supremacy of the Commons and longing to give a government many of them increasingly dislike (Iraq, university funding, the firemen) a good kicking.

The Tories are also split. Despite their failure to do anything about the House of Lords for two centuries, they have cast themselves as the true modernisers, eager for a largely-elected second chamber to hold an over-mighty executive (Tony Blair) to account. But radical constitutional reform is something that most Tories instinctively despise. With Tory peers and most of the backbench 1922 committee in revolt against the party line, many MPs are wondering whether what seemed like a brilliant wheeze to make the government look silly is really such a good idea after all.

The chances are that, although a majority of MPs will vote for some kind of democratically-elected element, the notion of an entirely-appointed second chamber (not very different from the existing one) will win more support than any of the hybrid options. Given the difficulty of getting any of the alternatives through the current House of Lords, that makes it the most likely eventual outcome.

This is unlikely to be a disaster. So-called life peers have often proved their expertise and independence when bad legislation has required amending. But, compared with the alternative of a second chamber with real power and real legitimacy, it's a sad end to the hopes and promises of the first term.

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Firemen

Hosed away

Jan 30th 2003
From The Economist print edition

The government is cracking the whip in the fire strike

PA

Fanning the flames

THIS is not what the firemen expected. Their strikes are proving ineffective. Their archaic working practices and bone-headed leadership have been embarrassingly exposed. Public support is waning. Now the government is threatening to change the law, in order to impose a pay settlement—and probably remove their right to strike as well.

This week the deputy prime minister, John Prescott, said he would introduce a bill to Parliament next month replacing the 40-year-old laws that govern the country's fire service, and in effect putting central government in charge of it. Mr Prescott said that he would no longer tolerate the “cat and mouse” tactics of the Fire Brigades' Union (FBU), which called one 48-hour strike this week, with another due to start on February 1st.

Mr Prescott, who launched his previous career as a union activist during the highly political seamen's strike of 1966, has clearly lost patience with the firemen. The government insists that any pay rise above the original 4% offer must be paid for out of higher productivity, and will negotiate only on that basis. It fears that a more generous rise would mean that much of the money it plans to spend on improved public services would be frittered away on higher pay.

What happens next? It may be that a whiff of legislative change strengthens the existing discontent among rank-and-file firemen with the union's militant leadership. Many are worried that a more tightly-managed service will no longer allow lucrative sidelines in cab-driving, plumbing and the like.

If the union remains intransigent, the question then becomes how much support firemen can expect from the rest of the labour movement. Mr Prescott's working-class credentials are very convenient for the government—attempts to portray him as an unfeeling bosses' lackey will fall very flat. Other trade unions have plenty of gripes with the government, but are unlikely to see the fire strike as the issue on which to make a stand.

All the same, if the government does go ahead and impose a settlement, the next stage will be to enforce it, by insisting that the firemen accept it or be sacked. The chances are that will break the strike. If not, it will be time for injunctions on the union, and possibly for policemen and bailiffs to start clearing recalcitrant firemen from their fire stations. That might be a bit more inflammatory.

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Bagehot

Phoney war blues

Jan 30th 2003
From The Economist print edition

Feeling against both the war and President Bush is running high. So how much trouble is Tony Blair really in?

AS TONY BLAIR settles down to his fireside deliberations with President Bush at Camp David, much continues to be made of the political crisis the prime minister will face at home if he goes to war without a new UN resolution backing him. Possibly rather too much.

There's no doubt that Britons have become increasingly uneasy since the pace of events accelerated last autumn. According to YouGov, an opinion pollster, in September, 34% would have supported British participation in an American-led attack on Iraq even without UN approval, but now only 23% would (a UN-backed invasion, on the other hand retains a constant approval rating of around 75%). Confidence in President Bush's handling of the crisis has fallen by about the same amount, while approval for Mr Blair has remained stable at around 40%. It is too early to know whether Hans Blix's progress report to the UN Security Council has changed anything, but without the “smoking gun” evidence that most people seem to think is the required *casus belli*, Downing Street is not getting up its hopes. As things stand, unless Colin Powell is able to produce dramatic new evidence when he briefs the Security Council on February 5th, it may not be possible to shift those numbers decisively before military action begins.

Mr Blair's biggest problem is the British attitude to Mr Bush. No matter how often the prime minister reminds people of the calm calculation Mr Bush demonstrated after the attack on the twin towers or praises his willingness to engage with the UN, it cuts little ice.

Mr Bush, much like Ronald Reagan before him, travels badly. The qualities that make him a highly effective political operator at home—in particular, his directness and the apparent simplicity of the language and images he employs—grate terribly on British ears. For many here, Mr Bush is the quintessential naive but over-bearing American. Nothing the prime minister says can shake that perception.

But Mr Blair has made life harder for himself by failing to set out clearly what the weapons inspectors could realistically be expected to achieve. He should have prepared opinion earlier for the likelihood that what the inspectors did not find might be at least as significant as what they did. He would also have performed fewer contortions had he been franker about the near-impossibility of disarming Iraq without first getting rid of Saddam Hussein. Because of this, he has struggled to deal with the Catch-22 conundrum posed by his critics: if the inspectors find nothing it's because there's nothing to find, but if they do, it shows the process is working.

Most frustratingly of all, although Mr Blair has explained again and again that September 11th made the world a much more dangerous place for Britons as well as for Americans, he hasn't convinced them that what he wants to do will make their lives any safer—if anything, the reverse. There is widespread fear that his support for Mr Bush will only serve to make Britain al-Qaeda's number two target.

When the balloon goes up

Of course, if Mr Powell, or even Mr Blix, whose first report was a good deal more damning of Iraqi non-compliance than had been expected, sway the sceptics on the Security Council, Mr Blair's problems will be over. But even if that doesn't happen, Mr Blair is in nothing like so tight a spot as is generally believed, despite the current unpopularity of his policy. He can forget about winning over the 25%-or-so who oppose war under any circumstances, but, once the fighting starts, majority opinion is still likely to swing his way.

In the first place, much of the fractiousness in the House of Commons will dissipate. This week, the prime minister promised again that MPs would have a chance to vote on whether or not they support a war before British forces are sent into battle—so long as a vote does not jeopardise the troops' safety by alerting the Iraqis to an imminent attack. Even on the gloomiest reckoning for Mr Blair—140 rebels from his own side, possibly 30 unhappy Tories, all 52 Liberal Democrats and a baker's dozen from the Celtic fringe parties—he can still expect a majority of nearly 200. Once that vote is taken and the Commons has expressed its democratic will, only a hard core of dissidents, some of whom heckled him in Parliament this week, should remain.

Just as a Commons vote should solidify support, so should committing troops to action. Most MPs feel strongly that they should be behind “our boys”, even when there are doubts about their mission. Charles Kennedy, the Liberal Democrat leader, has prospered by being the only national political leader to articulate the fears of the anxious majority, but senior Liberal Democrats know that it would be folly to continue their opposition once war has started.

On past experience, public opinion will also fall into line. Nowadays people remember wild enthusiasm for the Falklands war from the outset and an avalanche of public fury during the Suez affair. They are wrong on both counts. Opinion over the Falklands hardened only after military action had started. Early on, MORI found that 52% believed that retaking the islands was not worth the life of single British serviceman. But after the war was won at a cost of 250 British lives, 76% thought it had been right to fight. In 1956, Gallup found that only one-third of those polled before British troops arrived in Egypt supported the action, while 64% preferred to let the UN deal with the matter. Yet despite all the disasters that befell the campaign, support for the prime minister, Anthony Eden, rose throughout the crisis and continued to do so afterwards. Had he not fallen gravely ill, he would have still been prime minister after the Conservatives' general election victory in 1959. Mr Blair should take heart.

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Vaccines against bioterrorism

Who will build our biodefences?

Jan 30th 2003 | NEW YORK
From The Economist print edition

Pharmaceutical firms would like to create the drugs needed in the war against terrorism. But governments have yet to make it worth their while

Reuters

INVADING Iraq may be one way to counter the threat of bioterrorism. In an ideal world, a more scientific and less risky alternative would be mass vaccination against any nasties that terrorists might unleash. This week, George Bush pledged $6 billion for these sorts of products; and a voluntary programme began to vaccinate health workers against smallpox. But far from being reassuring, this serves only to highlight how far from ideal the real world is: the cost of a minimally adequate plan could easily be ten times this amount, and far from lining up for immunisation, health-care workers are shying away for fear of potential side-effects.

Sadly, creating an impenetrable drug shield against chemical and biological weapons may be at least as formidable a challenge as creating the missile-defence shield of which Mr Bush is so fond. The challenges are not just scientific—horribly tough as those are. They are also economic, not just in terms of the cost (huge, certainly) but also in deciding what roles should be played by the public sector and by the commercial drug industry. Although basic research is often best done by the government and non-profit bodies, development and production of drugs are usually better managed by the private sector. Yet it is striking that, despite the American government's promises of large chunks of money, the big drug firms are distinctly reluctant to get involved. Contrast that with the defence industry.

One of the few recent examples of private-sector involvement has been in supplying smallpox vaccine to governments. But this is low-risk production of a pre-existing vaccine, with the government assuming the product-liability risk. And the drug is hardly perfect. The vaccine has nasty side-effects. Research on vaccinations done decades ago suggests that at least three people may die for every million inoculated. This time around, the number may be higher because more people have suppressed immune systems thanks to AIDS and to the rise of sophisticated new medical procedures such as organ transplants and cancer treatments.

Moreover, the vaccine may not work against many of the nastiest strains of smallpox now being developed. Ken Alibek, a scientist who ran the Soviet Union's biological-weapons labs before defecting to America a decade ago, says that Russia has developed 2,000 strains of smallpox. Many are impossible to treat or defend against with existing drugs; some cannot be detected with existing diagnostic tests.

Many new drugs will be required just to tackle smallpox, which is only one of many biological or chemical weapons that might be unleashed. A better anthrax vaccine is needed, for instance, as the existing vaccine has such unpleasant side-effects—pounding headaches, nausea and memory loss—that, rather than be inoculated, over 400 American soldiers have, since 1998, opted to face a court martial.

A priority list has been compiled by the American government for 19 chemical or biological scourges for which there are no reliable counter-measures. Merely preventing, diagnosing or treating these could require 100 new products—and the number could soar if diseases are genetically engineered to resist existing treatments.

Miracle cure needed

This is not a problem that the private sector would solve if left to its own devices. Apart from the paranoid wealthy (sales of an anti-anthrax drug, Cipro, boomed in Manhattan after the anthrax attacks there in 2001), few people will fork out for a supply of pharmaceutical insurance. If there is to be a viable market, governments will be the main buyers. This has its own problems, as firms do not like to be dependent on a single big customer with notoriously fickle demands. Clearly, a government-only approach would be highly unlikely to deliver—as any cursory examination of government-only innovation and production elsewhere shows.

Thus, the eventual answer will involve some sort of public-private co-operation, perhaps also involving charitable institutions, as is starting to happen in the provision of new drugs for the poor (see article). But what sort of co-operation is likely to deliver the best results?

Answering this question is complicated by an unfortunate history of public-private co-operation in this area that makes drugs firms especially cautious. The most notable example was in 1976 when a 19-year-old soldier at Fort Dix, New Jersey, died from a strain of influenza, known as “swine flu”, which resembled one that triggered the great attack of 1918-19 that killed 20m-50m people worldwide.

There was no swine-flu vaccine, so government turned to the drug industry for help. Within a year, a vaccine was ready for use, after drug firms secured government protection from lawsuits that would inevitably come from people hurt by side-effects. In the end, the influenza claimed one life, but the vaccine that was supposed to guard against it killed 32 people and seriously injured hundreds. Doctors, vaccine manufacturers and various government agencies were sued for negligence. Eventually, the government picked up the bill, paying $90m in settlements.

Last year, the drug industry demanded and won protection from litigation over the use of thimerosal, a preservative in most vaccines believed by some to cause autism. The effort proved politically costly to the Bush administration and will not be easy to replicate—though drug firms creating biodefences may regard such protection as non-negotiable. Drug firms are especially leery of producing politically sensitive products because, in the aftermath of the anthrax scare of late 2001, the government threatened to invalidate Bayer's patent on its Cipro antibiotic unless prices were slashed.

Even with credible government guarantees on liability and patents, and with government and universities between them doing the necessary basic research, would big pharma seek to develop and make these drugs? Probably only if the government were able to offer risk-adjusted returns at least equal to those they currently earn—which, given traditional government procurement policies and the fact that drug-industry profits are a political hot potato, it seems unlikely to do.

A bill, probably the first of many attempts to establish a basis for public-private co-operation, with more to tempt good private firms than traditional government contracts, will soon come before Congress. Presented by Senators Joseph Lieberman and Orrin Hatch, it will offer tax incentives, protection of patents and limited liability for any firm working on bio, chemical or radiological counter-measures.

Its prospects are uncertain. What is clear is that the cost of creating maybe 100 new drugs dwarfs anything yet mentioned in America or anywhere else. Pfizer and Merck each spend around $6 billion annually, to produce maybe two or three new drugs a year. Trying to do the job properly could easily cost governments $70 billion, with success not guaranteed. Alas, the next best alternative is also rife with problems of cost, liability, and politics. It is war.

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Drugs for the poor

Exotic pursuits

Jan 30th 2003
From The Economist print edition

Drug firms are starting to tackle tropical diseases

TROPICAL fevers often leave their victims running hot and cold. Critics of the pharmaceutical industry argue that drugmakers behave in much the same way when it comes to medicines for tropical diseases. Many firms have donated products or lowered prices for existing patented medicines. But few have invested seriously in inventing new drugs for poor-country scourges. According to Médecins Sans Frontières, a medical charity, only 1% of almost 1,400 new drugs approved for sale in 1975-99 were specifically for tropical diseases.

One exception is GlaxoSmithKline (GSK), which set up a research centre in Spain two years ago to discover new medicines for malaria and tuberculosis. Now Novartis is launching its own research institute, in Singapore, to discover drugs for dengue fever and multi-drug-resistant tuberculosis—especially nasty in the poorer bits of Asia and Africa. Novartis will give the institute access to molecules and scientists from its other businesses, as well as an operating budget of SFr220m ($160m) over ten years.

This might sound paltry compared with the billions that drug companies spend on rich-country diseases, such as arthritis. But Paul Herrling, head of corporate research at Novartis, says such investments could go far, as the firm does not expect to do the costly bits of drug development, such as clinical trials, itself. Rather, it will turn to the likes of the Global Alliance for TB Drug Development, one of a handful of public-private partnerships that try to encourage drug-company involvement by shifting much of the financial risk of product development away from shareholders and on to government or philanthropic funds.

Other partnerships, such as the Medicines for Malaria Venture and the Drugs for Neglected Diseases initiative, to be launched this year, weave together networks of biotech firms, academic centres and charities to move products from test-tube to market. Their work has been given a fillip by the Bill and Melinda Gates Foundation which, on January 26th, announced a $200m grant to tackle “Grand Challenges in Global Health”.

Like GSK, Novartis does not expect to profit from its new venture: rather it argues that society now demands a contribution from drug firms and that its shareholders are happy to supply it. Makes you wonder why they do not work for nothing all the time.

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Management consultancy

The real McKinsey

Jan 30th 2003
From The Economist print edition

Can the Firm be special again?

McKinsey & Co

Gone to the great strategist in the sky

WITH the death of Marvin Bower on January 22nd, the world's best-known management consultancy has lost the man who created it. There was a Mr McKinsey who founded the eponymous firm, but he died of pneumonia in 1937 at the age of 48, only four years after hiring Mr Bower. Mr Bower, who survived into his 100th year, shrewdly never changed the name on the door. He reckoned that he was less likely to be hounded by clients if they thought McKinsey still ran the show.

When Mr Bower joined what insiders now simply call “the Firm”, consultancy was a shopfloor affair of engineers and time-and-motion studies. He saw that senior executives needed advice too, on strategy and organisation, and set about dispensing it. But, as a lawyer by training, he also saw the need for a quality that lawyers still had in those days: a professionalism that put the client first but also told him the truth, however unpalatable. At one meeting, Mr Bower bellowed furiously at the chief executive, “The problem with this company, Mr Little, is you.”

In the 1990s, recalls Ron Daniel, a former managing partner, Mr Bower disliked the changing climate for consultancies. Professionalism gave way to commerce and excessive growth. He was dismayed by the demise of Arthur Andersen, whose moving spirit, Leonard Spacek, had been a close friend. (McKinsey, another Enron adviser, was wiser, or maybe luckier.)

Now, McKinsey is at another crossroads: its managing partner, Rajat Gupta, has served the maximum of three three-year terms and must step down. The 280 or so senior partners worldwide are now each preparing a list of five colleagues. From these, the seven names mentioned most often will be put to a ballot, from which two candidates will eventually emerge. Mr Gupta's successor will be whoever wins an absolute majority of votes.

Under Mr Gupta, say critics, the Firm has moved away from Mr Bower's ideals, and become bloated and hierarchical, rewarding senior partners at the expense of younger staff. No longer is it a small, elite group of near equals. Mr Gupta himself says that McKinsey is using only 50-60% of its capacity; in some offices on America's west coast, the figure is said to be a mere 30%. Many bright business-school graduates have either been laid off or told to go away until business perks up. Some say McKinsey has asked them to repay loans it made so they could go to business school.

Among the front-runners are Ian Davis, who manages the London office and is seen as a champion of Bowerite values; Michael Patsalos-Fox, who runs New York, and may continue a pursuit of performance; and Jürgen Kluge, a new hotshot based in Dusseldorf. Whoever wins, being a successful management consultant will be a tougher job in the next three years than it was in Mr Bower's day.

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Cars in China

The great leap forward

Jan 30th 2003 | HONG KONG
From The Economist print edition

Demand for cars in China is accelerating at a remarkable rate

AP

Dreaming of the people's car

ALMOST nobody, not even the giant western carmakers that have been dreaming about China for two decades, was prepared for today's boom. Through the 1980s and 1990s, China disappointed. Carmakers came, made losses, argued with their Chinese partners, lamented the leakage of their technologies and often left again. In the late 1990s, several started making good profits—notably Volkswagen, the market leader. Now, suddenly, demand seems to have no ceiling. Last year, sales of saloons rose by over half, to more than 1m. Henry Wu, an analyst with UBS Warburg in Shanghai, expects them to rise by another 20% this year.

This makes China by far the most dynamic spot on the world maps of multinational carmakers. Ford, a latecomer which opened its first car factory in China in January, says that it expects China to become a larger market than Germany and perhaps even Japan in the next three to five years. For Volkswagen, whose joint ventures still dominate even though their market share has fallen from 55% to 41% in the past two years, China is already the biggest market outside Germany, its home.

Anxious not to miss the boom, most big carmakers have recently made or upped their commitments to China. In a single three-month period last year, Toyota, Hyundai and Nissan announced investments of $3.4 billion in total to build factories that will, collectively, build 2m cars by 2010. Volkswagen, GM, Kia and DaimlerChrysler are all expanding or adding factories.

These investments are different from those in other manufacturing industries. The car industry is capital-intensive, not labour-intensive, so carmakers are not expanding in China primarily to benefit from its cheap workers. Only Honda has said that it intends to use its Chinese joint venture for exports. Instead, foreigners are coming to be close to Chinese consumers.

Until last year, most car sales still went to fleets, such as taxi firms and governments. Now individuals are the main buyers. China's average annual income per head is $1,000 and rising. Over 300m of its 1.3 billion people earn more than $2,000. But measured by the benchmark of purchasing-power parity, China's income per head is $5,500, around the level at which consumption of cars has taken off elsewhere. And in China, where fewer than 2% of urban residents have cars, this take-off phase could last a while—in Germany and America, by comparison, about half the population now owns a car.

The government is doing its bit to help. It will reduce transaction and consumption taxes this year. In line with its commitments to the World Trade Organisation, it will keep lowering import tariffs and raising quotas. It will also make car ownership more useful by adding about 3,000 km (1,900 miles) of expressways a year to the existing network of 30,000 km. City governments, meanwhile, will provide more parking space—Beijing, for instance, now has parking slots for only 12% of the city's cars. The central bank also appears likely to ease regulations for the finance arms of western car firms. China's state banks are competing hard to extend car loans.

All this makes the hassles that foreign carmakers tend to experience in China seem more bearable. China's government wants to develop a strong domestic industry and so has always forced foreign investors to partner with local firms. Last year, there was talk that the government might allow foreigners to take controlling stakes in these joint ventures, but it appears to have decided against this. Only Honda, having declared its intent to manufacture for export rather than domestic consumption, has

been allowed control.

These partnerships are not always harmonious. Often the government and its chosen domestic manufacturers play foreign carmakers off against one another. Shanghai Automotive Industrial Corp (SAIC), the largest domestic car company, has joint ventures with both Volkswagen and GM, as well as with other domestic firms. Its German partners were recently upset when they found components meant for VW's Jetta inside models of SAIC's domestic partners.

A far bigger worry is that China's car market will change, as its markets for TV sets, air-conditioners, refrigerators, washing machines and other appliances have done. Demand for all these gadgets soared when incomes rose high enough to make them affordable. This led to predictions of eternal cornucopia, oodles of investment, capacity gluts, price wars and miserly returns. Car prices, too, are falling, and will probably keep doing so. Arthur Kroeber, an editor at the *China Economic Quarterl*y, a research publication, reckons that the capacity that investors are now building will outstrip demand by 20% at least. China's car binge might yet bring a hangover.

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Enron and corporate law

All guilty

Jan 30th 2003 | NEW YORK
From The Economist print edition

Lawyers and other advisers can again be held responsible for a firm's crimes

LAWYERS and bankers are celebrating last week's lobbying triumph, which quashed efforts to interpret the Sarbanes-Oxley act to make them legally liable for involvement in corporate scams. But they may not be off the hook. A surprising decision in the Enron case by a Texas district court, issued just before Christmas, is only now getting any attention. It may become the most important legal legacy of America's recent corporate scandals.

The 307-page ruling by Judge Melinda Harmon, in a shareholder class-action suit against Enron, is becoming a must-read at big law firms, not least because it concludes that a slew of America's most prominent banks, along with one of Houston's snootiest law firms, could be prosecuted for their role in Enron's alleged fraud. A motion to dismiss the case, on behalf of J.P. Morgan, Citigroup, CSFB, CIBC, Barclays, and Merrill Lynch, along with Vinson & Elkins, was itself dismissed.

Since 1994, lawyers and bankers have been protected from prosecution because of a narrowly decided Supreme Court decision, *Central Bank of Denver v First Interstate Bank of Denver*, which held that they could not be held liable for merely “aiding and abetting” a fraud. The big New York law firms found this to be an extremely wise decision, in as much as “aiding” was their primary business, and the decision seemed to make civil litigation against them almost impossible. The ruling was not without economic merit, either. Freed from direct legal consequences, an adviser's primary incentive is objective advice rather than self-preservation, says Charles Elson, a law professor at the University of Delaware. If advisory firms were put at legal risk, the cost of providing advice and raising capital would surely rise.

The losses resulting from the failure of Enron and the fortunes earned by firms that worked on its behalf made some sort of re-examination inevitable. Judge Harmon's ruling has drawn praise for its depth and scope even from lawyers who are already plotting to get it reversed. Instead of ignoring the *Central Bank* decision, she worked around it, ruling that lawyers who prepared public statements, or bankers who arranged public offerings of securities, for a company involved in a fraud had moved beyond merely aiding and abetting and become “primary violators”, with the company itself—and were therefore subject to the legal sanctions.

Big law firms are starting to realise that if the decision is allowed to stand, they, along with the investment banks, will become in effect insurers of the good conduct of their clients. This is a terrifying prospect. The stakes in this case make an appeal likely, but the same stakes could also lead to a settlement, which would then allow the decision to stand. Historically, low-level Texas courts do not determine American securities laws. But Enron, once a modest Texas company, exemplified the boom; the court dealing with its wreckage could define the rules of the bust.

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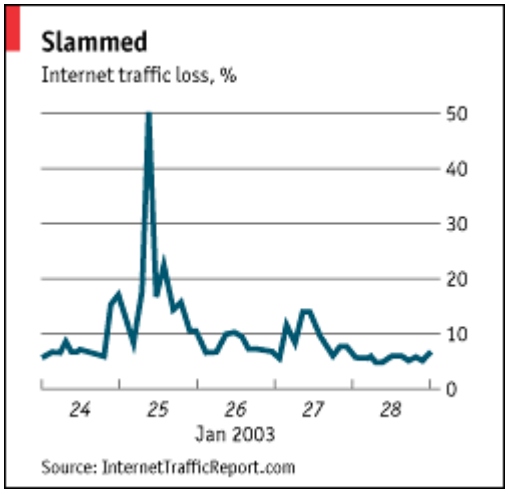
Internet security

Could do better

Jan 30th 2003
From The Economist print edition

Last week's worm outbreak showed up the flaws in internet security



IT WAS not the crippling cyber-terrorist attack that doomsayers have long predicted, but the “SQL Slammer” worm, a rogue program that rippled across the internet on January 25th, still managed to disrupt computers around the world. At the height of the attack, half of all internet traffic was being lost (see chart). But little damage was done. The impact of SQL Slammer was, in fact, more instructive than destructive, since it highlighted several important security issues.

First, like almost all rogue software, SQL Slammer exploited a security flaw in a product made by Microsoft, the world's largest software company. Specifically, it attacked SQL Server 2000, a database program. Microsoft's products are tempting targets for rogue code because they are widely used and contain many security flaws. This has prompted some to look at alternatives such as Linux, a free, open-source operating system. In response, Microsoft has begun a “Trustworthy Computing” initiative to improve the security of its products. But it will be some years before this pays off, says Chris Byrnes of Meta Group, a consultancy. A similar software-quality problem, he recalls, afflicted IBM in the 1970s. It took years to fix.

Second, SQL Slammer exploited a known flaw; Microsoft issued “patch” software to fix it months ago. But not everybody applied it, even within Microsoft. Bruce Schneier, a security expert, points out that numerous software patches are released every week. Systems managers are thus expected “to patch their systems about once a day, for ever”. This is unrealistic. And even if most systems are patched, an unpatched minority can wreak havoc.

Third, the worm had surprising knock-on effects. Thousands of cash dispensers in America stopped working, and police dispatchers near Seattle had to use pencils and paper when their computers were disabled. In theory, such critical systems should not depend on the internet. But as the net permeates society, says Mr Schneier, “expect to see more of this kind of thing in future.”

Finally, SQL Slammer provides a yardstick for how internet security has improved since Nimda, which struck shortly after September 11th 2001. Security has moved up the agenda and security technology is one of the few growth areas in the computer industry. But SQL Slammer still got through.

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Satellite television

Sky's the limit

Jan 30th 2003
From The Economist print edition

Can Rupert Murdoch replicate BSkyB's success elsewhere?

MOST British television companies huddle in fashionable parts of London, such as Soho, or within spitting distance of the BBC. Not BSkyB. It sits in a clump of low-rise units in suburban Hounslow, beside a razor-blade factory. Yet the location is fitting: Britain's leading pay-TV company, controlled by Rupert Murdoch's News Corporation, has always had an outsiderish, rule-breaking outlook. In 14 years, it has come from nowhere to tower above other pay-TV operations in Britain. And it leads the world in cutting-edge digital-TV technology.

Over the past year, as other cable- and pay-TV outfits have stumbled into bankruptcy (Britain's NTL, Germany's KirchPayTV) or history (Britain's ITV Digital, Spain's Quiero), BSkyB has never looked stronger. Subscriptions were up, year-on-year, by 15% in the third quarter of 2002, to 6.3m, and so was advertising revenue, by 12%. Sky channels (Sky Sports, Sky One, Sky Movies) often account for all of the 20 most-watched British pay-TV channels.

BSkyB is the world's first TV company to have switched all its subscribers to digital. That costly gamble—it gave away millions of digital set-top boxes worth over £200 ($320) apiece—is paying off. Operating profit in the year to June 2003, says Numis Securities, could reach £321m, 68% up on 2002. “It is simply the best-managed TV company in the UK,” says Mathew Horsman at Mediatique, a consultancy.

Having burnt his fingers investing in KirchPayTV, and with his Asian pay-TV outfits still losing money, Mr Murdoch wants to prove that he can create “another BSkyB”. He is awaiting European approval to merge Stream, his Italian satellite-TV operation, with Vivendi's Telepiu, to create a rebranded outfit called Sky Italia. And he is ready to pounce on DirecTV, an American satellite-TV firm, whose merger with a rival, EchoStar, was blocked by regulators—unless he takes seriously an approach from EchoStar about buying it instead.

In any event, if Mr Murdoch wants satellite-TV expertise for his new operations, the best place to find it is at BSkyB. Already, several lucky engineers and specialists have moved from Hounslow to Italy. And there is speculation that, should Mr Murdoch grab DirecTV and revive his plan to spin off his satellite-TV outfits into Sky Global, Tony Ball, BSkyB's publicity-shy boss, could get one of the top jobs—though Mr Ball insists he is not going anywhere.

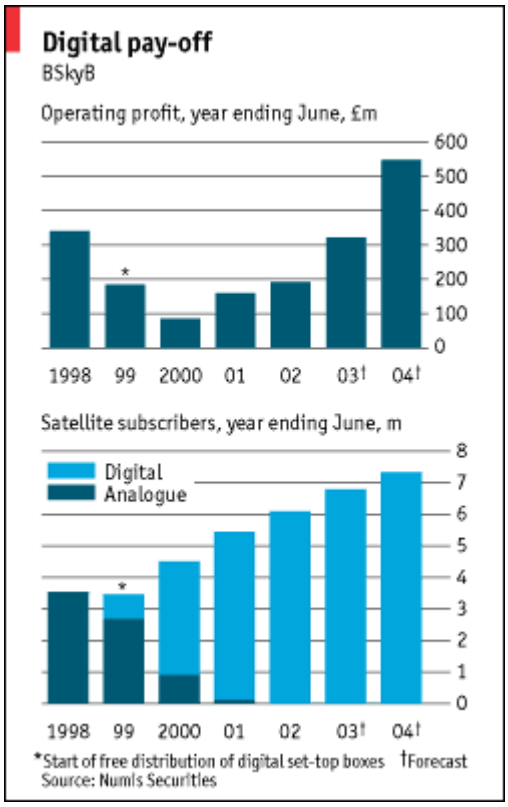
How exportable is BSkyB's success? In many ways, the British TV market was unusual when Sky stormed brashly in. There was little choice or competition: only four “free”TV channels, plus a fledgling cable industry. There were sympathetic regulators under Margaret Thatcher, who in 1990 allowed Sky to merge with its only rival, British Satellite Broadcasting. And Mr Murdoch had his British newspapers, particularly the *Sun*, as cheerleaders.

None of these conditions apply in cable-rich America or even Italy, with its seven national channels and scores of local ones. Italy's other problems include Silvio Berlusconi, the prime minister, whose Mediaset owns three channels, while the state owns another three. Piracy there is widespread. And, although live first-class soccer matches—a big element in BSkyB's success—are not broadcast free, plenty of instant highlights programmes are. “Football as a driver for pay-TV in Italy is not quite as strong as it is in the UK,” says Nick Bell, at Bear Stearns, an investment bank.

Yet BSkyB knows how to overcome adversity too. It struggled for years to break the grip of the BBC and ITV, to compete for programme rights, to fend off regulatory concerns—and to combat British snobbery about the vulgarising influence of the dish. And it built much of its success on generalisable skills. Its strength is not in making original TV programmes—though it recently hired Dawn Airey from Channel

Five to boost home-grown content. As Mr Ball, whose Sky One supplies such non-costume-drama as “Uncut! British Sex”, puts it: “We'll leave the top hats to the BBC.” Nor is it engineering, though it has made the most of a technology—satellite—that is in many respects inferior to cable.

Sky's strengths, rather, are twofold. It understands the value of exclusive premium content: it snatched live premiership football from free TV in Britain in 1992. And it knows how to make people pay for it. As much as anything else, BSkyB is a humdrum lesson in sales, marketing and—unlike so many cable companies—customer service. As Mr Horsman puts it, “They know exactly how to persuade you to part with your money.”



This skill could be transferable to a company like DirecTV, steeped in the corporate culture of its parent, General Motors. Just compare their performances. The annualised average revenue per user at BSkyB, based on the third quarter of 2002, was £348, or $539; at DirecTV, in the same period, it was only $237. Despite recent price rises, Sky's cancellation rate—at 9.6%, low by industry standards—has gone down. “You've got to be careful how much money you take off a subscriber,” says Mr Ball. The trick is to know just how far to fleece consumers without losing them.

Part of this involves securing the right content, which can be costly. So Sky will fight hard to secure the next batch of rights to live premiership soccer. It also means improving the existing offering. With digital, all its viewers now have more choice. There are over 380 channels. Sky viewers can pick from eight different versions of Sky News and, next season, from eight alternative live European football matches.

The other element is knowing how to market and price this content to maximise revenue. Call it clever or infuriating, but Sky bundles its channels so that consumers cannot pick and pay for only the premium ones; it has split its premium sports channel into three, and charges for each; it even charges subscribers to view certain live matches. While earlier experiments with interactive shopping flopped, it has turned gimmicks such as quizzes and voting during TV shows into handy earners. And Sky has invested heavily in customer service. It spent £50m last year upgrading its call-centres; each staff member gets Sky digital at home, to make sure they know what they are talking about.

Getting satellite-TV right is not only about knowing how to sell. If there is one lesson from both BSkyB's success and the failures of others, it is the stunning insight that people will pay only if there is something worth paying for. That is a lesson Mr Murdoch could export anywhere.

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Face value

The economist versus the terrorist

Jan 30th 2003
From The Economist print edition

Hernando de Soto believes that capitalism can defeat terrorism

TO BE the target of a terrorist campaign is not the usual fate of an economist. But Hernando de Soto is no ordinary practitioner of the dismal science. It was his pro-capitalist intellectual crusade against Shining Path terrorists in his native Peru that made him one of their top targets; he survived at least three attempts on his life. Those ideas, set out in his 1987 bestseller, “The Other Path”, may even have helped to turn the poor against the Shining Path, ensuring its defeat. What worked in Peru, he says, can work wherever terrorism now thrives.

After the September 11th terrorist attacks, this message gained a new urgency. Mr de Soto was already increasingly influential with international policymakers, thanks to a second book, in 2000, entitled “The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else”. Now, he is everywhere. So far, over 20 government leaders—from Afghanistan to Mexico to Russia—have sought his counsel. This week alone he was championed by Bill Clinton at the World Economic Forum in Davos; and then he discussed development with Bono, a rock star, and Gordon Brown, Britain's chancellor of the exchequer.

Mr de Soto is charismatic and sells his ideas energetically. But he is no mere talker. Besides Peru and El Salvador, which made reforms some years ago based on his ideas, Mr de Soto and his think-tank, Institute for Liberty and Democracy, have recently been working with the governments of Mexico, Egypt, the Philippines, Honduras and Haiti—which is expected to be the first of these countries to introduce new legislation in April.

Marx and Engels, Mr de Soto's pet dogs, were so named because “they are German, hairy and have no respect for property”. It is a carefully chosen joke, for respect for property is at the heart of Mr de Soto's economic creed—and may explain why his earliest foreign supporters, in the 1980s, were right-wingers such as Margaret Thatcher, Richard Nixon and Dan Quayle.

Yet Mr de Soto is not one of those economists who thinks that the key to capitalism's success is to protect existing, legally established property rights, come what may. On the contrary, he argues that capitalism will thrive, and overcome threats such as terrorism, only if legal systems change so that most of the people feel that the law is on their side. Creating this sense of inclusion requires many things, including marketing the idea aggressively to the poor. But one of the best symbols of change is a mass programme of giving full legal protection to the *de facto* property rights that are observed informally by the (typically poor) people now living beyond the formal law.

According to Mr de Soto's research, based on interaction with extra-legal communities in several countries, such informal property rights cover assets—notably, land and housing—worth many billions of dollars. Informal systems of property rights usually make such assets “dead capital”, meaning that it is hard to use them as collateral for a loan, which might be used to start a business, for example. Bringing these rights into the formal legal system will unleash this capital and spur growth, says Mr de Soto: an efficient, inclusive legal system preceded rapid development in every rich country.

Too good to be true?

Critics of Mr de Soto contend that he is selling a simplistic universal solution to many different, often culturally specific, obstacles to capitalism or sources of terrorism. What, for instance, do the disaffected rich Arabs of al-Qaeda, motivated by heavenly virgins, have in common with the brutal Marxists of the Shining Path? Can there be a common cure? Mr de Soto concedes that it was lucky the Shining Path were so cruel to their potential supporters among the poor; Che Guevara would have been harder to beat, as “he was a nice guy”. Yet he believes that most poor people, given the chance to participate fairly in the capitalist system, would do so rather than stay outside. And although not all terrorists are from poor backgrounds, or motivated by materialistic goals, most tend to survive—as did the Shining Path—by hiding among the world's excluded.

As for cultural specificity, understanding in minute detail the practical rules governing each extra-legal society is the essence of Mr de Soto's approach. Without this, it is impossible to design formal laws acceptable enough to make the excluded feel included. Indeed, the lengths to which Mr de Soto went in Peru to help make coca-growing farmers of the Amazon feel included enough to reject the Shining Path were extremely culturally specific. His then boss, the then-president, Alberto Fujimori, and the army agreed to recognise the farmers' informal militias, grant them land titles and decriminalise the growing of coca; Mr de Soto even got the elder George Bush to support this strategy, in exchange only for a signed pledge from farmers that they would begin a programme of crop conversion away from coca.

This certainly undermined support for the Shining Path. But although, on a recent visit, *The Economist* found that the farmers still felt (and valued being) included—a big achievement—crop conversion had not gone well. Coca output is still high. Rising coca, and falling coffee and cocoa, prices have not helped. But Mr de Soto says the job was not finished properly. Mr Fujimori envied Mr de Soto's popularity and stopped him implementing all his plans. New land rights were granted that did not properly match old informal rights. Mr de Soto could not bring in multinationals to oversee crop conversion.

Mr de Soto draws several lessons from this. Reform is no quick fix, but a long-term project demanding specific cultural knowledge. And it must be driven by a head of government (who presumably needs to get enough of the credit not to become jealous of Mr de Soto). His challenge now is to persuade other government leaders to turn expressions of interest into action. Wish him luck, for capitalism may not have a better path.

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Fiat after Gianni Agnelli

The party's over

Jan 30th 2003 | ROME AND TURIN
From The Economist print edition

Getty

Gianni Agnelli, the man who built the house of Fiat, died last week. His troubled house can now be divided

THE scene was worthy of a Puccini opera: the patriarch lying on his death-bed as his heirs and dependants gather to discuss how to save his inheritance. The end of 81-year-old Gianni Agnelli could not have come in more dramatic circumstances. The man known as “the uncrowned king of Italy” died of prostate cancer in the early hours of January 24th, the day of a key meeting of Giovanni Agnelli & Company, the family trust that controls Fiat and the rest of the Agnelli empire.

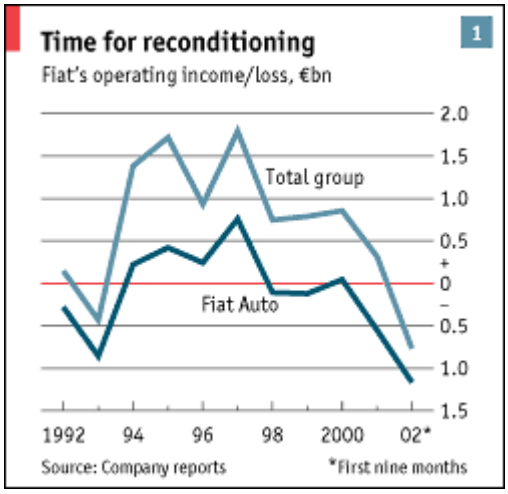
The meeting was being held to nominate Gianni's younger brother, the 68-year-old Umberto Agnelli, as head of the trust, and to discuss investing more family money in the rescue of the hard-pressed Fiat. Umberto was duly anointed, and the investment was promised.

The patriarch's death blanked out other news in Italy. *Corriere della Sera*, the country's leading newspaper, devoted almost all of its first 19 pages to it the next day, relegating the prospect of a war with Iraq to a paragraph on the front page and a story on page 20. Over 100,000 people queued to see Mr Agnelli's body as it lay in state at Fiat's head office before being applauded through crowded streets on its way to the funeral in Turin Cathedral. Italy's president and prime minister both attended, although the latter, embroiled in rows over factory closures dictated by Fiat's plight, chose to arrive in an Audi rather than in one of Fiat's upmarket saloons. He was duly booed by the crowd.

Mr Agnelli's last years were cruelly marked by the accelerating decline of Fiat Auto, the heart of the family's conglomerate and a business that still accounts for over 40% of the group's sales. The underlying problem is that its losses (see chart 1) drain profits made by other parts of the group. Last year, Fiat Auto is estimated to have lost *euro*1.5 billion ($1.46 billion) at the operating level, and to have missed its rescue plan's target of breaking even in the fourth quarter. Such disappointments have undermined hopes of recovery and led to speculation that the group will be broken up.

Breaking up was hard to do

Fiat dominated the European car market in the mid-1980s. Its ambitions to go global led it to expand in Brazil and eastern Europe. But now it has slipped to the second rank of the European industry and has piled up huge debts that threaten its very survival. Since last May, its bosses and its four main banks have been grappling with a survival plan aimed at putting in fresh capital, closing surplus capacity, and revitalising a weak product range. In the past 15 months, the head of Fiat Auto and the group chief executive have both been ousted. The man brought in by Gianni Agnelli in 1998 to succeed him as chairman, Paolo Fresco (a former vice-chairman of General Electric under Jack Welch), is also poised to retire.



Rival rescue plans, including one from Roberto Colaninno, a former boss of Olivetti and of Telecom Italia, have been going the rounds. One involves the government putting in money to prevent the company slipping into the clutches of General Motors (GM), which already owns 20% of Fiat. (The deal in which the world's biggest car company bought into Fiat Auto over two years ago included an option under which Fiat could force the Americans to buy the remaining 80% after January 2004.) Over the next few weeks the Agnelli family (which controls 34% of Fiat's shares) and the Fiat board must put the finishing touches to their own rescue plan. This includes getting the agreement of their banks to convert loans to equity and so improve the group's balance sheet.

One real possibility—more likely now that Gianni Agnelli is dead—is for Fiat Auto to be spun off as a separate company. On February 27th, the board will meet to consider all the proposals. The Agnelli family's favoured option is to float off such Fiat divisions as Iveco (trucks), Fiat Avio (aerospace), Ferrari and Fiat Auto, as separate listed companies. The family would retain a controlling stake and probably put in additional capital. The model already exists: CNH, Fiat's agricultural- and construction-equipment business, is listed in America, even though Fiat retains an 85% stake.

How did Europe's most famous family business—a company that drove Italy's post-war economic miracle and once accounted for about 5% of the country's GDP—come to this? The story of the rise and fall of the house of Fiat mirrors the story of Mr Agnelli himself.

The first life of Mr Fiat

Gianni Agnelli had two lives. The first was sybaritic, a youth that somehow dragged on until he was middle-aged. He was one of Europe's best-known playboys, enlivening post-war society with his pursuit of beautiful women, fast machines and spontaneous hedonism. Heir to an industrial fortune built by his grandfather, the young Mr Agnelli showed little interest in business. *L'Unita*, a communist newspaper, once accused him of “absolute indifference” to the problems of industry. Nevertheless he was not discomfited by Italy's powerful communists. For years he had a respectful friendship with Luciano Lama, a prominent communist trade-union leader. And last weekend even hardline communists paid fulsome tribute.

Mr Agnelli was a trendsetter in trend-obsessed Italy. In the era of *la dolce vita* nobody was better at living it than *l'avvocato*, as Mr Agnelli was known (he completed a law degree, but never practised). Twice he nearly killed himself, on one occasion wrapping his Ferrari round a tree and somehow wrecking only his legs. No philistine, he struggled with music, and once described listening to Maria Callas singing Medea as “two hours of torture”. He was more at home with art, and he built a fine collection that included no fewer than seven paintings by Matisse.

But he was never able to ignore the business entirely. Giovanni Agnelli, his revered grandfather and the founder of Fiat, died in 1945 leaving behind an industrial dynasty that had grown during a dark period in Italian history. Defeated and despondent, the country was ashamed of its alliance with Hitler's Germany. Giovanni Agnelli had co-existed with fascism. When required, he had put on a black shirt, though he said he was only being polite. After his death there was a real danger that Fiat would be expropriated.

Young Gianni saved the day. With his charm and fluent English he persuaded the Americans that keeping Fiat in private hands was vital to the stability of post-war Italy. Fearful of a resurgence of communism, the Americans were happy to accept that the family-owned Fiat could be a bastion of free enterprise.

Having saved the company for the family, Mr Agnelli then handed its top job to Vittorio Valletta, a talented manager who had, in effect, been running it for several years. A decision born from his unwillingness to accept heavy responsibility, it probably saved Fiat a second time. Under Mr Valletta the company entered an era of prosperity that coincided with the rise of the mass car market and Italy's economic miracle of the 1950s.

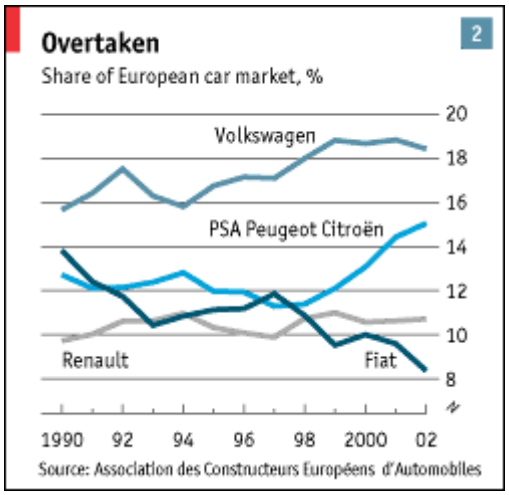
At the end of the second world war Italy was still a rural society—three-quarters of the population lived on the land. Much of industry was in the hands of ENI and IRI, giant but inefficient state conglomerates set up by Mussolini. Against a fractured political background, Fiat and these state companies competed, sometimes bitterly. The state sector concentrated on infrastructure and energy, while Fiat manufactured affordable products for the general public. The Fiat 600, the car that first put Italians on the move, came out in 1955. Construction of the Autostrada del Sole, the road that took them to the southern sun, began in 1956.

By the mid-1960s Fiat had annual sales of $1.5 billion and was making a million vehicles a year. It had diversified into tractors, trucks and aeroplanes, as well as expanding into countries such as the Soviet Union, Turkey and Argentina. It had a knack for making cars that people wanted to buy, as Italians moved up from scooters to small cars. The little Fiat 124 became Italy's bestselling model.

A changed man

Mr Agnelli's second life began when he was 45 and saw him emerge as one of the world's most powerful industrialists. He came to be seen by many Italians as a latter-day Medici prince. He retained his passions for the good life and fine things, but at the same time he changed. Somewhat late in life, he accepted a dynastic responsibility and struggled to fulfil it.

In his new guise, he cultivated new friends. He formed a mutual admiration society with Henry Kissinger, swapped notes with the shadowy power brokers who made up the Bilderberg Group, made ill-judged deals with dubious heads of state, and generally charmed everybody he met. “He knew something about everything,” remarked a close friend, “so he could find a subject of mutual interest with anyone.”



He took the helm at Fiat in 1966. Impressed by all things American, he fired old managers and brought in assembly-line production ideas that were ahead of their time. Seeing a need to escape an over-reliance on the Italian market, he merged briefly with Citroën in France to help make Fiat the world's third-largest car producer—behind General Motors and Ford. With relish, he joined battle with IRI, which was developing Alfa Romeo as a potential rival in the domestic market.

But in the late 1960s Italy's economic miracle began to crack. The pressure of social and industrial tensions sent Fiat's fortunes into reverse. Student unrest in 1968 was followed by the “hot autumn” of 1969 when workers won big pay rises after staging massive strikes. Students mocked leading industrialists with the slogan, *“Agnelli, Pirelli, ladri gemelli* (twin thieves)”.

As union militancy increased, Fiat was hit by wildcat strikes. Production was badly affected and in 1973 the company reported a loss. For the first time since 1945, Mr Agnelli was forced to cut the dividend. With OPEC pushing up oil prices, he chose a disastrous strategy to reduce Fiat's dependence on cars. He focused instead on public transport, choosing to make more buses and trains. This ill-judged diversification was a mistake he repeated in the late 1980s when Fiat became a sprawling conglomerate ranging from telecoms to pharmaceuticals. The core business was deprived of the capital it needed to consolidate its then strong position, sowing the seeds for today's crisis at Fiat Auto.

In 1974 Mr Agnelli became chairman of Confindustria, Italy's employers' association, and tried to placate the unions by hiking wages. In January 1975 he made a pact with Mr Lama that linked wages to inflation in order to stave off worker unrest. Italian economists and industrialists are unanimous in their view that this was a disaster for an already fragile economy. Wages soared, pushing inflation higher and higher in a vicious circle. But Mr Agnelli was unrepentant, believing he had saved Italian industry, perhaps even Italy.

Despite buying some time, he had not, however, saved Fiat. By 1979 absenteeism in Fiat's factories was running at 20%. Moreover, Fiat was a natural target for the far-left terrorist groups that emerged in the mid-1970s: 27 Fiat managers were wounded and four killed in terrorist attacks. Factories were burned and machinery was sabotaged. Italy, said Mr Agnelli, was in danger of becoming “another Argentina”—prey to chaos, hyperinflation and political extremism, incapable of sustaining the cohesion necessary for the functioning of a modern state.

The glorious years return

After years of muddle, Mr Agnelli finally took some tough decisions. In September 1979, Fiat fired 61 workers suspected of terrorist connections, and in mid-1980 Mr Agnelli gave free rein to two professional managers—in the process painfully ousting Umberto, his younger brother. Cesare Romiti, a former Alitalia manager, played the tough cop. He fired 23,000 workers and saw off a nasty strike that was broken when 40,000 Fiat workers and managers marched for the right to go back to work.

Vittorio Ghidella was the good cop, a brilliant day-to-day manager of the car business who quickly proved he had an eye for models that would be popular. The famous Fiat Uno arrived in 1983 and helped to transform Fiat's fortunes. The car was highly innovative, and the robotic production systems that made it were among the most efficient in the world.

By the mid-1980s Fiat was back. It was so profitable that its once crushing bank debts were all but eliminated. It was such an attractive property that Ford was keen to merge it into its European operation. But Mr Agnelli admitted at the time that he just could not bear to lose control.

The Agnellis were fully in charge as they entered a new era of high-technology expansion. Mr Agnelli believed, as he had in the early 1970s, that the maturing car industry would be overtaken by more exciting activities. He was keen to find a role in America's “star wars” military-defence programme. But in fact cars did well. In 1987, Fiat announced profits of $1.8 billion. The year before it had bought Alfa Romeo from under the nose of Ford and was soon again vying with Volkswagen as Europe's biggest carmaker.

But the group continued to diversify. It came to control more than one-quarter of Italy's daily newspaper circulation and 13% of national advertising. Although Mr Agnelli was passionate about the car business, he allowed Mr Fresco, who succeeded Mr Romiti, to direct even more investment elsewhere in the mid-1990s.

As other carmakers began to merge, Fiat bungled a series of negotiations. If it had been hitched to BMW, Ford, Volkswagen or Daimler-Benz (all of which were interested at various points during the 1990s), it might have become part of a formidable global competitor. By 1999, however, the best it could do was to sell 20% of its car business to GM.

Always a one-trick pony

In hindsight, Fiat committed several sins. From 1995 to 2001 it spent only $4.5 billion on research and development in its car business. Rivals such as Renault and Mercedes spent more than twice as much, while Volkswagen invested more than $20 billion in R&D. The result was a series of gaping holes in Fiat's product lines. The company will have gone over 18 months without a single new model by the time it finally unveils some in June.

The Stilo saloon, launched in 2001, flopped. Fiat has consistently failed to improve on its image as a successful manufacturer only of small cars. It was always a one-trick pony, depending on the Uno to save it in the 1980s, and on the Punto to do it again in the 1990s. With the failure of the Stilo to repeat the trick, deeper underlying problems were exposed.

Apart from being over-dependent on a single model, Fiat was slow to raise the quality of its products. This kept the public wary of buying anything other than a cute, cheap small car from it. And for this reason it was never able to prosper in the American market, where its name came to stand for “Fix It Again Tony”. Eventually it withdrew from America, even though it should have been able to use its strong position in Europe as a springboard for plunging into the world's biggest car market.

The second sin was to gear up its production systems, on the assumption that it could achieve global scale outside America—and on its own. Fiat was aiming to produce 4m vehicles a year, relying heavily on Brazil and Poland, where it was strong. But the Brazilian market imploded with the country's economic crisis in 1998, and the South Koreans destroyed Fiat's market share in Poland. Production is now well under 2m a year and falling. The company's market share has collapsed even in Italy. It has responded by curbing production and laying off workers, but its heavy fixed costs are a horrid drain on cash.

There is now little doubt that, one way or another, Fiat will be rescued by an injection of Italian money. GM will thus be relieved, even though it may have to invest some more as its share of a rescue. The American company has been unhappy for a while at the prospect of being forced to take over the whole company, since it has problems of its own elsewhere in Europe. But it wants to maintain the two companies' joint ventures on purchasing and on engines and chassis for small cars, a co-operation that is one of the few bright spots in Fiat today.

A financial rescue is no guarantee of future profits. Europe already has two successful regional car companies: PSA Peugeot Citroën and Renault. The first makes respectable margins; its recovery in the past five years has been the mirror-image of Fiat's decline. Renault will transform itself into a global producer from 2005, when Carlos Ghosn, the boss of Nissan, its alliance partner in Japan, takes over the running of both companies.

It will not be easy for Fiat to face its future challenges without Gianni Agnelli. There may be more choices before it—but there may also be less chance that it will make the right ones.

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World economy

Look if you dare

Jan 30th 2003
From The Economist print edition

Getty

Stockmarkets have woken up to the world economy's fragility

DURING much of this year's World Economic Forum, the Swiss ski resort of Davos was blanketed in thick cloud and beset by chilly snow showers. The weather matched the mood of the hobnobbing businessmen and policymakers as stockmarkets around the world plunged. The S&P 500 has shed another 2% so far this year; Germany's DAX is down by 6%, and the FTSE 100 has fallen by 12%, to a seven-year low.

Most analysts blame the latest collapse in share prices on the prospect of war against Iraq. European markets have fallen by more than America's, they argue, because Europe's economies are in much worse shape. The virtue of blaming the latest slump in equities on the Iraqi question is that a short war and a quick victory could result in a strong stockmarket rally, just as after the Gulf war in January 1991. However, whereas worries about Iraq were the trigger for the latest rout, a deeper problem is the fragility of the post-bubble global economy.

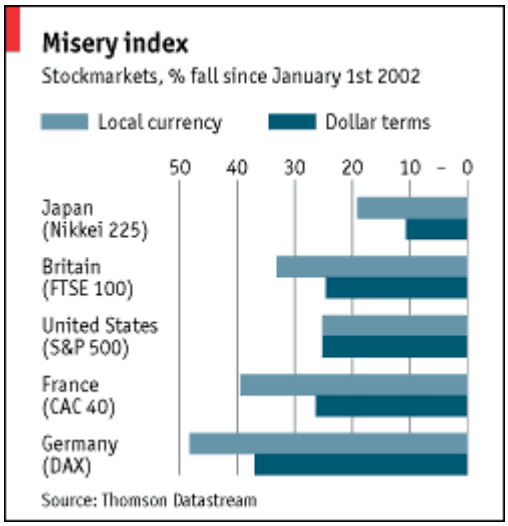
Figures due on January 30th showed that America's GDP growth slowed to only 0.7% at an annual rate in the fourth quarter of 2002 as consumer spending stalled. The Conference Board's index of consumer confidence fell in January to its lowest since 1993. Over 2002 as a whole, America still outpaced Europe and Japan, but it continues to live beyond its means. The excesses that built up during the bubble years, such as huge private-sector debts, excess capacity and an enormous current-account deficit, still loom large. Sooner or later these imbalances will be corrected, which is likely to keep growth below trend for some time.

Even so, the short-term economic weather does depend upon events in Iraq. If there is a short war, oil prices will spike briefly, but could then fall sharply, helping to spur a stronger recovery. In a more prolonged war, oil prices would stay higher for longer and stockmarkets would fall further. A deep recession would be possible.

The halt and the lame

Yet underlying economic conditions matter either way, because a weak economy is a lot more vulnerable. Most of the American businessmen in Davos believed that the country's rapid productivity growth and reflationary monetary and fiscal policies would ensure a strong recovery in the medium term. In contrast, the euro area, it was widely argued, would be held back by its over-tight macroeconomic policies and its sclerotic labour and product markets. No wonder investors are dumping European shares.

However, the perception that Europe's stockmarkets have underperformed Wall Street is a little misleading. If stockmarkets are measured in dollar terms, most of the European markets have not fallen much more sharply (see chart). In dollar terms Germany's DAX has actually risen by more than America's S&P 500 since hitting its low point last autumn.



This is not to deny that many euro-area economies look sickly. Germany's GDP grew by only 0.2% last year. On January 29th the German government cut its growth forecast for 2003 to just 1%. That assumes no further rise in the euro, which this week hit $1.09, almost 30% above its level in mid-2001. A stronger euro will squeeze German exports.

Only Japan looks worse. Its industrial production fell again in December, raising fears that its GDP contracted in the fourth quarter, nudging Japan to the brink of its fourth recession in a decade. The country's economic supremo, Heizo Takenaka, promised in Davos that the economy was “only” two years away from revival. Don't hold your breath.

Americans delight in lecturing Europeans and Japanese about their disastrous economic policies, while boasting of their own country's “sound economic fundamentals”. “Sound” is an imaginative word to describe an economy with a net national saving rate of only 1.6%—its lowest in history—and a current-account deficit of 5% of GDP. American households continue to pile up debt, largely by taking out bigger mortgages on their homes and using the cash to splurge on a car or a new TV. Indeed, the whole American economy is now being propped up by the housing market. Housing starts and house prices continue to rise at a brisk pace.

It is no coincidence that other economies where consumer spending has been strong, such as Britain, Australia and Spain, have also enjoyed rapidly rising house prices. Robert Shiller, an economist at Yale University and author of “Irrational Exuberance”, a book that questioned the sustainability of America's stockmarket just before the crash, argues that many housing markets look nastily bubble-like. If they burst now, they will surely push economies into recession. House prices have a far bigger wealth effect on consumer spending than share prices do.

If housing prices burst now, they will surely push economies into recession

Even if economies do not dip into recession, prolonged below-trend growth would push up unemployment and cause inflation to fall further. Since inflation in many economies is already at a 40-year low, this raises the risk of deflation.

The Federal Reserve left interest rates unchanged at 1.25% at its policy meeting on January 28th and 29th. Some economists believe that it will cut interest rates again before the spring. But it no longer has much room to cut rates further if the economy takes a deep dive.

Central bankers in America and Europe have publicly played down the risk of deflation. Even if interest rates hit zero, they argue, central banks can use other measures, such as flooding the banking system with money, buying government bonds or intervening in the currency markets. Similar tools have long been urged on the Bank of Japan. But in other discussions in Davos Larry Summers, a former American treasury secretary, and Alan Blinder, a former vice-chairman of the Fed, both questioned the efficacy of these non-traditional monetary tools. Meanwhile Stephen Roach, an economist at Morgan Stanley, worries that, even if the Fed prints masses of money, in a deflationary environment overindebted households may choose to save rather than spend the cash.

Despite such concerns a small majority of the great and the good in Davos thought Wall Street would end this year higher than it began. Reassured? Don't be. When asked in January 2000 if there was a stockmarket bubble, a clear majority said no.

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The Sarbanes-Oxley act

Wishy-washy

Jan 30th 2003
From The Economist print edition

The SEC pulls its punches on corporate-governance rules

JUST inside the six-month deadline set by the Sarbanes-Oxley act, America's Securities and Exchange Commission (SEC) has cautiously redrafted some rules on the behaviour of listed companies, their auditors and lawyers. The result may be thousands of pages of new rules, but it is hardly the puritanical regime foreseen by the evangelistic act, which was passed amid post-Enron fire and brimstone last July. And on two counts the SEC dithered, giving itself 60 more days: rating agencies and whistle-blowing by corporate lawyers.

The new rules include the following:

• **Auditors** are barred from certain (but not all) non-audit work. They must not destroy records for five years. Lead partners auditing a client should be changed after five years. Auditors must “cool off” for a year before being employed by a client.

• **Company accounts** must come clean on Enron-style off-balance-sheet structures and equity-like derivatives. They must be filed promptly, and chief executives and financial officers must vouch for their accuracy. Misleading “pro forma” accounts are discouraged. A company should disclose whether or not its senior executives have adopted a code of ethics, and whether there is an independent financial expert on its audit committee.

• **Executives** must report sales of shares in their firms promptly, and are barred from selling when other employees cannot.

• **Corporate lawyers** must inform senior management of any breaches of securities law lower down.

• **Mutual funds** must disclose how they exercise their investors' proxy votes.

Only on this last point did the SEC resist fierce lobbying. It received more than 7,500 comments on a single rule. Mutual funds, with about $6.6 trillion entrusted to them by 95m people, are America's favourite investment vehicle. Their managers wield considerable power, because they can use proxy votes at their own discretion.

John Brennan, chief executive of the Vanguard Group, which manages funds of $560 billion, and Edward Johnson of Fidelity, with $713 billion, protest that disclosing votes and distributing companies' proxy statements (which contain the order of business at shareholder meetings, plus other corporate information) to investors will be administratively costly. Messrs Brennan and Johnson also worry that political activists, such as trade unions and environmental groups, will put pressure on fund managers.

The measure's supporters say that proxy votes are the most direct way to influence corporate governance, and that investors have the right to know whether a fund manager has voted in their best interests. For example, if fund managers run a company's pension plan and have voting rights in the company's shares, they might be tempted to side with its management, against the interests of their investors, to keep the retirement account.

Proxy statements can easily be published on the internet. There will be political pressure on fund managers with or without disclosure. Adam Kanzer of Domini Social Investments, a “socially responsible” mutual fund that discloses its proxy votes, says that votes on the recent merger of Hewlett-Packard and Compaq were intensely political. “Such lobbying goes on all the time,” he says.

The SEC is also pondering the need for a self-regulatory body for mutual funds. That would be the final regulatory initiative of its departing chairman, Harvey Pitt. William Donaldson, his nominated successor, awaiting Senate approval, will now tie up the loose ends of Sarbanes-Oxley. When the SEC pronounces on rating agencies at the end of March, it is unlikely to propose regulation. On the contrary, the SEC's findings suggest the three top agencies should forfeit their approved status, to encourage fresh competition. All well and good: reform of corporate America is better led by the market than by regulators.

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Crédit Lyonnais

A shuffle offshore

Jan 30th 2003 | PARIS
From The Economist print edition

Citicorp, François Pinault and Crédit Lyonnais's 1992 accounts

AFP

IT IS well known that the financial scandal a decade ago at Crédit Lyonnais, a big French bank then owned by the state, involved numerous bankers and many of the bank's clients. Some bankers, as well as senior officials whose jobs included signing the bank's dodgy accounts, are now on trial in Paris. Among them is Jean-Claude Trichet, whose position as head-in-waiting of the European Central Bank hangs on his being exonerated. In the early 1990s he was director of the French Treasury.

Less well known is how Crédit Lyonnais faked its accounts. But *The Economist* has obtained documents that show how the bank inflated its results for 1992, using a sham transaction with an Enron-style offshore vehicle created by Citicorp (now called Citigroup).

In late 1992 the bank was desperately trying to avoid revealing the parlous state of its finances. In particular, it wanted to realise all of an apparent capital gain on the sale of junk bonds acquired early that year when it bought Executive Life, a bust Californian insurance company. At the end of the year a company belonging to François Pinault, one of Crédit Lyonnais's biggest customers, whose family controls Pinault-Printemps-Redoute, a timber-to-luxury-goods conglomerate, bought the bonds, with the help of a $2 billion loan facility from the bank. This deal flattered the bank's results by around $500m, a huge sum given the extent of its other losses.

But the documents show that Crédit Lyonnais could account for all this profit only because Citicorp arranged a clever scheme. Ironically, the documents come not from the trial of Mr Trichet and others, but from judicial inquiries in America. The bank's Executive Life deal has been the subject of criminal and civil investigations in America since 1998-99.

In July last year Mr Pinault was questioned for two days by lawyers bringing a civil suit against him and Crédit Lyonnais. *The Economist* has obtained a copy of his deposition, as well as copies of documents seized from Citigroup by the FBI. These include a memo prepared in September 1993 which outlines the questionable scheme.

According to the memo, the sale of the junk bonds to Mr Pinault led to an accounting problem. Clinvest, Crédit Lyonnais's private-equity arm, owned more than 20% of Financière Pinault, Mr Pinault's ultimate family holding company. Under French accounting rules, a stake of this size would require the parent bank to treat Mr Pinault's operations as related in its own accounts. In that case, the bank would not record all of the capital gain for the sale of the junk bonds, as some would now appear as an internal transfer of assets.

The solution was to create a deal to hide the true extent of Crédit Lyonnais's stake in Financière Pinault. The bank approached Citicorp, which owned Citistar, a special financial vehicle in the Cayman Islands. Under an agreement signed on December 29th 1992, Citistar “bought” 9.1% of Financière Pinault from Clinvest, agreeing to hold the shares until March 31st 1994. That reduced Clinvest's declared holding to around 11%—and Crédit Lyonnais thereby avoided its accounting problem.

But the consideration for Citistar's purchase came from Crédit Lyonnais itself, in the form of a purchase of special shares issued by Citistar. So the bank parked the shares offshore with Citicorp, paying a fee for the privilege. The parking scheme was eventually unwound.

Where did Mr Pinault come into this? As controlling owner of Financière Pinault, he had to give permission for Clinvest to “sell” its shares to Citistar. In his deposition, Mr Pinault confirmed that he had done so. He claimed that Loïc Deraison, then boss of Clinvest, had told him that Citistar was part of the Crédit Lyonnais group and that the sale was “a matter of accounting presentation”. Mr Deraison says he does not recall telling Mr Pinault this.

Mr Pinault also said, “I knew that Crédit Lyonnais had problems with the [1992] results, but I didn't know the scope of the problems.” But he agreed in order “not to complicate life for Crédit Lyonnais”. Mr Pinault says that he had no reason to think there was anything improper about the bank's request and did not inquire further.

In sum, Mr Pinault's deposition shows that one of the bank's biggest clients was helping it with “accounting presentation” in 1992. And Citicorp was also involved. Citigroup declines to comment on the transaction, but says that it is “uncomfortable” with such deals, which, it claims, are precluded by new policies adopted last August. Should the French authorities be pursuing it? In 1992 Crédit Lyonnais agreed to take responsibility for “all consequences deriving from any breach...of any relevant tax, accounting, legal, regulatory or other rule.” The inference is that, years before Enron, the creators of offshore special-purpose vehicles suspected that such schemes might be questioned. There was no shortage of customers.

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Financial centres (1)

Sayonara

Jan 30th 2003 | TOKYO
From The Economist print edition

The first of two articles on financial centres in difficulty looks at the travails of Tokyo; in the second, we report from Frankfurt

Get article background

IN MARCH the last of the three foreign firms that had opened specialist online-broking businesses in Japan will shut up shop. This signifies not only the final throes of a craze for amateur dabbling in shares on the internet but also the fading allure of Japan for foreign securities firms.

Over the past couple of years ABN Amro, Dresdner Kleinwort Wasserstein and Crédit Agricole have closed their equity operations in Japan. Commerzbank Securities, CSFB and J.P. Morgan Chase have been pruning. Merrill Lynch slashed its Japanese retail business by two-thirds last year, after racking up huge losses.

In the past six months bulge-bracket investment banks have been integrating their Japanese equity-sales groups with teams covering the rest of Asia. Some observers, such as Alexander Kinmont, a strategist at Nikko Salomon Smith Barney in Tokyo, believe that global securities firms will soon no longer have departments for Japanese equities alone. Why, he asks, would anyone invest in Japan when next-door China is so much more inviting? According to Ken Real Estate Investment Advisors, a swanky Tokyo estate agent, demand from expatriates has fallen by about 30% since the end of 2000.

Granted, falling markets and earnings are leading investment banks to turf out staff in London and New York too. But Tokyo's problems have been running for much longer (see chart). Japan's weighting in Morgan Stanley Capital International's world index, a popular benchmark among international institutional investors, has fallen from 31.2% at the end of 1990 to 8.8% today. Bankers estimate that since 2000 commission income from institutional investors has fallen by one-third.

As recently as 2000, medium-sized brokers were expanding their Japanese operations in the hope of catching up with bigger rivals. One after another, they have decided that they can no longer sustain large losses in Tokyo, and are pulling out. Bigger brokers are faring better because they have been able to cushion losses in equities divisions. For example, they have been earning fees by providing back-office and other services to hedge funds. Bonds have been another steady source of profit, as, to a lesser extent, have structured products, securitisation and distressed debt.

A lack of transparency in financial regulation has also reduced Japan's appeal compared with, say, Hong Kong or Singapore. Sudden changes in regulation have not helped. Last year a tightening of short-selling rules left brokers scrambling to adapt to the new regime. The government's habit of propping up stockmarkets from time to time, and its muddled policies in general, make investing unpredictable.

The departure of several foreign brokers and a cooling-off by local retail investors call into question Tokyo's status as a top financial centre. The Financial Services Agency, Japan's financial regulator, says it is alarmed. It admits that it should speed up plans to reform securities markets.

Still, it may be too early to write off Japan altogether. ING, a Dutch bank, recently decided to outsource its equity-trading, clearing and settlement services in Japan, so as to cut fixed costs and concentrate on equity sales and research. Nomura Holdings, the largest domestic broker, has taken advantage of

foreigners' departures. After struggling to compete with foreign rivals, it has won back some top spots in investment-banking league tables. And Japanese shares did less badly than American ones in 2002. But in a wretched year all round, that is small comfort.

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Financial centres (2)

Faltering Finanzplatz

Jan 30th 2003 | FRANKFURT
From The Economist print edition

Realists put a dent in Frankfurt's aspirations

AP

Time for reflection in Mainhattan

TWO McKinsey consultants recently and unwittingly stoked the debate over Frankfurt's future as a financial centre. Their private memo to the heads of Dresdner Bank, Germany's third-biggest bank, and Deutsche Börse, operator of the city's stock exchange, declaring that *Finanzplatz* Frankfurt was "falling apart", was leaked to the *Frankfurter Allgemeine Sonntagszeitung*, a Sunday newspaper.

Not so, howled the stalwarts of the city's financial industry, including the local bosses of American investment banks. Frankfurt is the most important continental European centre, they insisted, even if most securities, foreign-exchange and derivatives trading has moved to London. The classic investment-banking disciplines, such as origination and sales of debt and equity financing, and mergers and acquisitions, still need bankers on the ground. Two American investment banks, Goldman Sachs and Morgan Stanley, have hundreds of people in Frankfurt.

Yet Frankfurt once had greater ambitions: look at the still-growing forest of bank headquarters known as Mainhattan (after the Main, the river on which the city stands). Dresdner Bank is building a second tower for which it has little obvious use. Commerzbank, Germany's number-four bank, recently opened a 500-desk trading-room, the biggest in Europe, that it cannot fill.

Frankfurters fear that they may lose their core institutions. Dresdner is owned and run increasingly tightly by Allianz, a big insurer based in Munich. Commerzbank is expected to be bought sooner or later, perhaps by HVB Group, a Munich bank. Although Deutsche Bank, Germany's biggest, denies that it would ever quit Frankfurt, it relies heavily on investment banking, which it runs out of London and New York. Its Swiss boss, Josef Ackermann, last year showered at least $500,000 on New York's bid to host the 2012 Olympic Games, overlooking Frankfurt's competing bid.

Frankfurt's defenders point to the city's excellent infrastructure and its geographical position, right in the middle of an enlarged European Union. Some powerful institutions are there to stay: the Bundesbank and the European Central Bank; KfW, a state-owned development bank; the agency that manages government debt; Germany's biggest stockmarket; and the securities arm of Germany's financial watchdog. An upswing would soon fill empty offices, say many, and restore the self-confidence of the late 1990s, the heyday of the Neuer Markt, Deutsche Börse's now-defunct new-economy stockmarket.

Recovery, though, will not come without a restructuring of Germany's banking sector. This is under way, up to a point: despite labour laws that discourage lay-offs, banks are shedding workers by the tens of thousands. But deep problems remain. State-backed banks, with a 40% retail-market share, have distorted prices for years and made corporate lending unprofitable. A top marginal rate of income tax of over 50% is no incentive for high-flyers to move to Frankfurt. The federal government in Berlin and the local state government of Hesse, in nearby Wiesbaden, have been slow to draft reforms that would favour Frankfurt.

The McKinsey crew may nonetheless have triggered a positive response. Hans Eichel, Germany's finance minister, says that the next Financial Markets Promotion Act, the fifth since 1990, will improve Frankfurt's competitive position and attract, among others, hedge funds. Is this the same Mr Eichel who

a year ago railed against hedge funds because of their danger to financial stability?

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Auditors and the law

Gunning for KPMG

Jan 30th 2003
From The Economist print edition

The SEC trains its sights on a second big accountancy firm

THE last thing that anybody wants, regulators least of all, is for another large accounting firm to vanish, as Arthur Andersen did last year. With the Big Five already reduced to four, there is scarcely enough choice as it is; with three, there would be even less. Nevertheless, on January 29th America's Securities and Exchange Commission dealt a cruel blow to KPMG, the world's third-largest accounting firm.

The SEC filed a civil lawsuit in Manhattan against KPMG and four of its partners for allowing Xerox, an office-equipment maker, to inflate its revenues by $3 billion between 1997 and 2000. “No one here wants to see KPMG disappear,” says an official at the SEC, “but we can't accept the idea that there's an accounting firm that's too big to fail.”

The firm's office in Stamford, Connecticut, earned $82m from Xerox in the four years concerned: $26m for audit and the rest for consulting, tax services and the like. Terrified of losing such a lucrative client, the lawsuit contends, the partners approved false numbers.

Xerox, which last year paid $10m to settle a lawsuit by the SEC and restated its earnings, dreamt up a variety of what it called “topside accounting devices” to conceal the stagnation in its business. Its main ruse was to count revenues from leasing photocopiers and other equipment far earlier than it should have done. Another was manipulating reserves. When Ronald Safran, one of the auditors, objected, Xerox demanded that he be replaced. According to the SEC, KPMG acquiesced.

Top accountants, who are jittery in the wake of Andersen's demise, say that KPMG may be the most vulnerable of the remaining four. Among leading firms, KPMG is the least willing to accept that the way audits are done must change, says a rival. It is the most old-fashioned, adds another: look at, for instance, its lower degree of global integration. KPMG fought harder and longer than the other firms against proposals on auditor independence made by Arthur Levitt, then chairman of the SEC, in 2000. KPMG has been a hardline firm, says an official at the SEC.

The last accounting firm that the SEC charged with fraud was Andersen, over Waste Management, a rubbish-disposal company, in 2001. What finally brought Andersen down was a criminal indictment by the Department of Justice over Enron. Although the SEC's suit against KPMG is civil, not criminal—it has no power to bring criminal cases—rival accountants believe that if KPMG loses the case, the firm would be only one step away from serious trouble. It could not afford another scandal.

KPMG fought harder and longer than the other firms against proposals on auditor independence

In response to the SEC's complaint, KPMG says that it “did the right thing.” To begin with, it points out that it refused in 2000 to sign Xerox's accounts until the company had restated its numbers for prior years. It says it has the support of PricewaterhouseCoopers, another Big Four firm, and other experts for its view that Xerox's basic method of accounting for leases was “appropriate”. The action, it says, is “clearly an injustice to KPMG and the four partners involved.” As usual, KPMG will fight.

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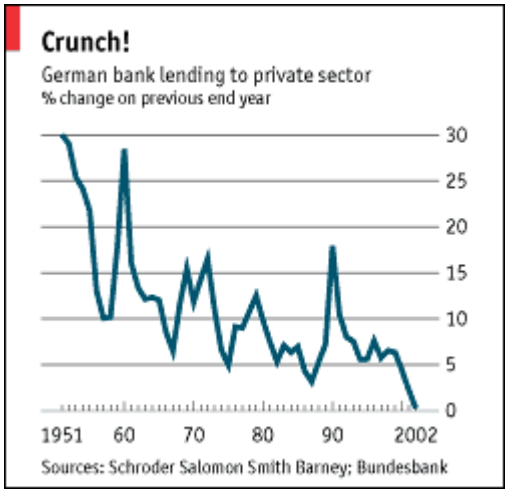
Germany's economy

Feeling the crunch

Jan 30th 2003
From The Economist print edition

German banks have become more reluctant to lend

A BIG freeze has Germany in its grip: bank lending has collapsed to its weakest for more than 50 years. Is this yet another sign that Germany is catching the Japanese disease of economic stagnation, or even deflation?



Germany's economy has ominous similarities to Japan's. Not only is it riddled with structural rigidities, but there is also a risk of deflation. Domestic demand is flat, yet policymakers are powerless to ease monetary or fiscal policy. Interest rates are in the hands of the European Central Bank, while fiscal policy is constrained by Europe's stability and growth pact, which is driving the government to raise taxes this year. The latest symptom of Japanitis—the emerging evidence of a credit crunch—is particularly worrisome because Germany's companies, like Japan's, are heavily dependent on bank lending.

Over the past 12 months total bank lending has been flat (see chart). In real terms credit is shrinking for the first time since the mid-1970s recession. The big question is whether the slowdown in credit growth is the result of lower demand for loans, as firms see fewer profitable investment opportunities, or reduced supply, as banks restrict credit.

Much of the drying-up of new lending clearly reflects weak demand. However, after analysing the historical relationship between GDP growth and bank lending, Robert Prior-Wandesforde, an economist at HSBC, concludes that the slowdown in credit is more dramatic than can be explained by weak demand alone. Several surveys confirm that a rising number of firms are being refused new credit or seeing existing credit lines cut. Increased competition, low profits and falling share prices are putting pressure on banks to trim their traditional relationship lending. This is hitting small firms particularly hard.

Banks' cosy relationships with business have kept many inefficient firms alive for too long; today's tighter credit partly reflects more rational behaviour. However, the timing is awkward, to say the least. If credit stays tight, more bankruptcies and bad loans are probable. These could in turn induce banks to become stingier still. German banks are in better shape than Japan's were at the start of the 1990s. But Japan has shown how credit crunches can be lethal in economies that are so dependent on bank finance.

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Economics focus

A better way to go bust

Jan 30th 2003
From The Economist print edition

Would new rules for sovereign defaults help the emerging-economy bond market?

THE market for emerging-economy government bonds is a shadow of its former self, and likely to remain so. In 1990, such governments raised a net $23 billion of private capital from issues of medium- and long-term bonds. In 1997, at the peak of the emerging-market boom, $88 billion flowed in. But last year, says the Institute of International Finance, a bankers' group in Washington, DC, the flow had slowed to $12 billion. The IIF does not expect 2003 to be much different.

Uncertainty about the world economy obviously plays a leading part in any explanation of why inflows have shrunk so much. In addition, investors are less starry-eyed than they were a few years ago, having suffered big losses in successive financial crises, from East Asia to Russia to Argentina. However, many bankers say a third problem is making matters worse: the International Monetary Fund's attempt to create new rules for dealing with countries that cannot pay their debts.

Just over a year ago, Anne Krueger, number two at the IMF, proposed amending the organisation's rules to create an orderly procedure for restructuring a bankrupt country's debts. Inspired by Argentina's spectacular collapse, Ms Krueger suggested creating a “sovereign debt restructuring mechanism” (SDRM), in order to make defaults less painful and messy.

The basic idea sounds sensible enough: to mimic some features of domestic corporate-bankruptcy rules. Just as American bankruptcy law has a “cram-down” provision that forces the terms of a restructuring on all creditors, so the SDRM would allow a majority of creditors to force a minority to accept a plan. At present, the restructuring of most sovereign bonds requires unanimity among bondholders. Conceivably, the SDRM could sanction a standstill on debt payments, as domestic bankruptcy law does, and allow countries that have defaulted to issue new senior debt, as firms in Chapter 11 can. Intrigued by the idea, if not convinced, the rich-country governments that control the IMF have asked for a detailed proposal by April.

However most financiers, whether bankers or bondholders, loathe the SDRM. Their main concern is that it would erode their rights as creditors, make defaults easier and more frequent, and as a result dry up the market for emerging-market bonds. Fearing higher interest rates and scarcer access to capital, many emerging-market governments have also criticised the plan. Partly as a result of this outcry from financiers and borrowers, America's government, whose support will be essential if the IMF is to change its rules, has grown more sceptical in recent months.

The concern over creditor rights is not irrational. Compared with creditors in most other markets, holders of sovereign bonds already have weak rights. It is hard, if not impossible, to grab assets when a sovereign borrower defaults. There is no international legal framework that can force a change of management (ie, throw out the government) when a badly run country goes bust. Instead, creditors rely on two levers. First, they can hassle a defaulting government by taking it to (a foreign) court. Second, a defaulting government will find it hard to regain access to international capital markets. Rather than gain a bad reputation, borrowers try hard to avoid going bust.

Room for improvement

As things stand, creditors are clearly poorly protected. Emerging-economy bond markets have been characterised by high interest rates, overborrowing and frequent, painful defaults. But would the IMF's proposals improve the situation? In a new paper*, Andrei Shleifer, an economist at Harvard University,

argues that they would not. He says that the SDRM selectively apes those aspects of American bankruptcy law that are kind to debtors, although domestic bond restructurings are legally required to be done “in the best interest of the creditors”. For instance, a procedure that allowed a defaulting sovereign debtor to issue new bonds would, Mr Shleifer argues, remove the most powerful deterrent to default, lack of access to foreign capital.

The IMF replies that its proposal—at least in the latest of its several incarnations—does not weaken creditors' rights. It merely provides a legal framework within which a majority of creditors can restructure a country's debt. This strengthens the rights of the majority of bondholders at the expense of individual dissenters, but it does not reduce the rights of creditors overall. Indeed, says the IMF, bondholders should benefit from making defaults less costly to work out, because the value of bonds would fall by less when defaults happen. Unlike a domestic bankruptcy court, all big decisions under the SDRM would be made by creditors, not by a bankruptcy judge. A defaulting country would need the agreement of creditors to gain access to new private finance. The IMF itself would play virtually no part.

Taking today's plan at face value, it is hard to see what all the fuss is about. Yes, it would allow a majority of creditors to coerce a minority, but overall control of the procedure remains with the creditors; and, by speeding up default work-outs, it might help dud bonds to keep more of their value. The process of dealing with debtors in default would not change radically.

The underlying problem is suspicion: bankers, bondholders and many emerging-market borrowers worry that the IMF has a hidden agenda. The IMF could use the SDRM, once it is in place, as an excuse to trim official bail-outs, by demanding that private creditors take more of the strain when governments run into trouble. Another fear is that, whatever the rules of the SDRM are on paper, in reality politics will still trample on creditors' rights. That, argue the financiers, would be so disastrous that the mere threat of it is dampening sovereign-debt markets today.

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* “Will the Sovereign Debt Market Survive?” Available on the internet at http://post.economics.harvard.edu/faculty/shleifer/papers/debt_NBER.pdf.

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About sponsorship

Correction

Jan 30th 2003
From The Economist print edition

In our January 25th issue we said that General Electric had a shortfall in its pension fund ("Broke"). In fact the fund had a surplus of $5 billion at the end of 2002, and GE does not expect that extra funding will be needed. Sorry.

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Electromagnetic weapons

Come fry with me

Jan 30th 2003
From The Economist print edition

Experimental electromagnetic weaponry may soon see combat use

THE first well-known strategic weapon was the Trojan horse, which allowed the Greeks to capture Troy without damaging the city's walls. If comments last year by Donald Rumsfeld, America's defence secretary, are to be believed, new electromagnetic weapons may yet allow America to do the same to Baghdad. This would, some think, represent the first combat use of such weaponry.

Using different types of electromagnetic energy (the same stuff as radio waves, X-rays and light), these weapons are able to destroy electronic systems and temporarily incapacitate people, all without the mess of explosions and gunfire. Although the systems are still said to be experimental, the recent use of armed, unmanned drones in Afghanistan and Yemen has shown that America's armed forces have become good at applying new weapons technology in the field.

It all started in 1962, when America first exploded a nuclear bomb 30km (19 miles) up in the atmosphere. The energetic gamma rays caused by the explosion triggered an electromagnetic pulse that disrupted radio stations 1,200km away. Although the pulse lasted for only a fraction of a second (and thus was harmless to humans) it was enough to seed the idea that electromagnetic pulses were possible, and potentially useful.

Luckily, an electromagnetic pulse can be generated without a nuclear explosion. America's efforts are centred at a research laboratory at Kirtland Air Force Base in New Mexico. A spokesman from Kirtland refuses to comment on the research, but according to a study done for the Australian air force, the most likely way of creating weaponised high-powered microwaves (HPMs) is through a device known as a vircator.

A vircator works by discharging stored electricity into a coil of wires wrapped around an explosive. The flowing electricity creates a magnetic field, which is then compressed as the (relatively small) explosive goes off. This causes a low-frequency electromagnetic pulse that is used to accelerate electrons to high energies and punch through a sheet of foil. The electrons form an unstable bubble of charge that oscillates in a cavity designed for the purpose. The oscillation creates HPMs that are then emitted from an antenna that guides them towards the target.

Because the source of the energy is a compact explosive, a vircator could fit inside bombs or cruise missiles. Deployed, they could disrupt a variety of enemy systems, from missile targeting and launch electronics, to command-and-control systems. It is possible that they could penetrate hundreds of metres below the ground and reach underground bunkers built for protection against explosives. Larger, reusable weapons are also being developed for use on ships to disable incoming missiles such as China's Silkworm.

Microwave on “high”

At a time when America's war technology is the most advanced in the world, and the most dependent on electronics, an obvious problem with such weaponry is that attackers may themselves be susceptible to damage when in proximity to an attack. It is a phenomenon known to military theorists as the “fratricide” problem—and to everybody else as a double-edged sword. Because the wavelengths of HPM weapons are so short, they are also the most difficult to protect against, as they can penetrate the smallest of gaps.

Systems for protecting against electromagnetic radiation are already being developed. They have evolved from civilian research into ways of protecting aircraft against lightning strikes. One approach is to shield equipment by surrounding sensitive components in a swathe of conducting material (such as metal) that excludes external electric and magnetic fields. Another is to use antennas designed to shunt energy away from sensitive components, and to direct it towards the ground.

According to Lieutenant-Colonel Piers Wood, a fellow at GlobalSecurity.org, an American think-tank, even with such protection America remains nervous about using electromagnetic weapons close to manned aircraft. That is why HPMs are a driving force behind the development of more sophisticated unmanned craft, from bomb-sized drones such as the “loitering electronic warfare killer”, to automated helicopters and even giant blimps that may soon ring America as components of a missile-defence system.

Sophisticated armies are not the only potential users of electromagnetic weaponry. Unlike military planes, passenger jets are not well protected against electromagnetic weapons and so are susceptible even to chance electromagnetic emissions from mobile phones, CD players or laptop computers that come from within the plane's metal skin. In what is a textbook case of asymmetrical warfare, a terrorist equipped with a low-powered device (ie, one that is not explosively powered and rather simple to build) could still conceivably cause a plane to crash.

Less technologically challenging than high-powered devices designed to knock out electronic systems are those designed to work against humans. These fall into the same category of weaponry as schemes for slippery foam and powerful laser pointers to blind temporarily (or rather, to “impair visual efficiency”), being developed by the American Marine Corp's Joint Non-Lethal Weapons Directorate, in Quantico, Virginia.

Hot to trot

So-called “active denial” technology (which earns its moniker by actively herding people out of its path) works by using a beam of millimetre-length microwaves to heat up a person's skin. The marines are planning to put a version of the weapon on to a jeep. Its range and properties are classified, but military newspapers say it can heat a person's skin to 55°C (130°F) at distances of up to 750 metres. This has urban-warfare planners excited, as it would let American forces clear city blocks in, say, Baghdad, without going door-to-door and risking American casualties.

At first glance, such devices as HPMs and the active denial system seem to be a good idea. They would allow well-equipped armies to conquer more quickly and effectively, with less loss of life. But some observers are more cautious about the technology. Steve Goose of Human Rights Watch, an American advocacy group, although noting that he has no problem with the idea of non-lethal weapons, says that too much secrecy still surrounds them. Weapons such as HPMs may have unintended long-term health consequences, he says. And weapons such as the active denial system could cause severe trauma, or even death, if fired at close range or held on a target for too long. Critics of non-lethal systems also worry that they might be used for repression of civilian populations.

David Fidler, a law professor at Indiana University, says that, because these weapons are most likely to be used on civilians, it is not clear that using them is legal under the international rules governing armed

conflict. He also notes that, if they are used in conjunction with conventional weapons, they could end up making war more deadly, rather than less. And he adds that non-lethal weapons raise a new ethical conundrum: is it acceptable to shoot or bomb somebody if you have the option only to disable them?

Odysseus's scheme ended a bloody war, though it did so bloodily. Electromagnetic weapons could avoid this. But the secrecy over them makes it hard to judge.

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Medicine

Funny bone

Jan 30th 2003
From The Economist print edition

Magnetising bone cells may improve the growth of artificial bone

Getty

Bone idle is bone fragile

THESE are exciting times for tissue engineers. The technology for growing human body parts in the laboratory is advancing rapidly. Already it is possible to cultivate sheets of human skin. And huge efforts are under way to develop even more complex structures, such as heart valves, and whole organs, such as the liver. But building bone is proving especially difficult. This is unfortunate, because bone is a tissue that would be extremely valuable if it could be grown in quantity.

The principle of tissue engineering is relatively straightforward. Cells are seeded on to a shaped scaffold and then put into a biochemical soup in which they can multiply. If this were possible with bone, a patient needing a hip replacement could, in theory, provide a few starter cells that could then be cultured on an entire hip-shaped scaffold. A hip grown in this way would integrate better into the existing leg bone than a titanium one, and carry far less risk of rejection.

The problem is that to produce the correct type of "matrix"—the tough component of bone, consisting of calcium and phosphate minerals, together with protein fibres—bone cells must be put under mechanical pressure as they grow. But the scaffolds on which bone is grown are fragile, as they need to be porous and biodegradable. When scientists try to apply a force to the bone cells, the scaffold can deform or disintegrate.

Jon Dobson and Alicia El Haj, at the University of Keele in Britain, think they may now have cracked this problem, by attaching tiny magnetic nanoparticles to bone cells. The nanoparticles—only a few millionths of a millimetre across—are made of magnetite, a form of iron oxide, and are able to bond with the outside membrane of a bone cell.

Cells are first exposed to these particles, and then seeded on to a scaffold. The mineral magnetite occurs naturally in human tissues, so the researchers say it is unlikely to be biologically harmful. As the cells grow and divide, some of the nanoparticles end up on the daughter cells. Some particles even appear to attach themselves to the cell's internal skeleton, or cytoskeleton. To apply a load to the cells, the pair aimed an external magnetic field at the particles. This has the effect of tugging at the cell membrane, or, for those particles inside the cell, stressing the cytoskeleton.

Early tests in two-dimensional structures have been promising. Although the researchers have not yet reached the stage of testing the material's strength in three dimensions, they have been able to show that, in the magnetised cells, the genes necessary for producing the matrix of bone are being stimulated.

The researchers are now investigating the best conditions for growing bone, and whether this technique could be used to grow other types of tissue. If all goes well, they will set up a company to commercialise the technology—as so many have done before them. The new bone may break with tradition, but these researchers certainly do not.

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About sponsorship

Nuclear power

Hail, Caesar

Jan 30th 2003
From The Economist print edition

A clever new design could lead to a kinder, gentler form of nuclear power

IT SOUNDS impossible: a nuclear reactor that generates electricity from nuclear waste. Yet that is what Claudio Filippone, a nuclear scientist and director of the Centre for Advanced Energy Concepts at the University of Maryland, proposed a few years ago. He has now devised an improved design, called CAESAR ("clean and environmentally safe advanced reactor") that is even more counterintuitive. As well as being environmentally friendly—it can produce electricity without causing any extra pollution—his new design could also help prevent nuclear proliferation.

Conventional nuclear reactors run on fuel rods made largely of uranium-238, enriched with about 4% uranium-235. If you hit a uranium-235 atom with a neutron, it releases a tiny amount of energy and breaks up into smaller nuclei and more neutrons, which can in turn hit other atoms. Pack atoms close enough together, and a self-sustaining reaction occurs, producing a vast amount of energy in the form of heat. Several things control the reaction rate, including a "moderator" that is inserted between the fuel rods to slow down some of the neutrons so that they move slowly enough to split atoms. After two or three years, there are so few uranium-235 atoms left that the reaction cannot sustain itself. At this point, fresh fuel rods are needed.

In contrast, Dr Filippone's new design works by splitting the far more numerous uranium-238 atoms inside fuel rods. Such atoms are very picky. To get them to split, you have to hit them with a neutron going at exactly the right speed. (Uranium-235 and plutonium atoms are far less choosy, so getting a self-sustaining reaction going is relatively easy—hence their use in weapons.) The key to the new design is the unusual choice of moderator: steam. Steam's density can be controlled very finely, so it can be used to slow passing neutrons to ensure that they are moving at exactly the right speed to split a uranium-238 atom.

The result is a tiny burst of energy, more neutrons and smaller nuclei, as usual. But CAESAR exploits the fact that these smaller nuclei also decay to produce additional, slow-moving neutrons, known as "delayed neutrons". In a conventional reactor, the moderator slows these neutrons down so much that they cannot contribute to the reaction. But when steam is used as the moderator, the delayed neutrons keep going until they hit another uranium-238 atom. It should then be possible to maintain a self-sustaining reaction in "spent" fuel rods of pure uranium-238 for several decades. So material now treated as waste could be used as fuel. The problem of disposing of spent fuel will remain, but CAESAR is, in effect, a form of waste storage that produces electricity.

The design also has implications for preventing nuclear proliferation. The cores of existing reactors have to be accessible so that fuel rods can be moved in and out. By adjusting the configuration of the core in the right way—by judicious positioning of graphite, for example—almost any civilian reactor can be made to produce plutonium, and thus to make weapons. Access to the core is not necessary with CAESAR, as it could run for decades without any need for refuelling. Thus it could be sealed. Countries could then adopt the design to show that their nuclear intentions were entirely peaceful.

Dr Filippone has tested some aspects of his design using the experimental TRIGA reactor at the University of Maryland, and in computer simulations. But to prove that it will work he has to demonstrate a self-sustaining reaction in uranium-238. Working with Ivo Vasa of the Nuclear Research Institute in Rez, in the Czech Republic, he is now looking for the money needed to perform such an experiment, which is expected to take about two years and cost around $2m. With luck, his new design will generate a favourable reaction.

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Flying saucers

DIY UFOs

Jan 30th 2003
From The Economist print edition

Government scientists deny photographing UFOs. It must be true then

IT SOUNDS like a scene from “The X-Files”. Government scientists, after years of “covering up” and “refusing to comment”, have now “officially denied” taking pictures of UFOs. The photographs in question come from a spacecraft called the Solar & Heliospheric Observatory, or SOHO, which studies the sun. Ever since its launch in 1995 by Europe's and America's space agencies, SOHO's pictures have generated ferment among UFOlogists, who say it has taken hundreds of shots of flying saucers.

Now the scientists say they want to set the record straight. “We've never seen anything that even suggests that there are UFOs ‘out there',” they say. The strange marks on the photographs are either planets, cosmic rays, debris, software glitches or defects in their detectors that have been modified by UFO proponents. The scientists show how a picture of a cosmic ray can be smoothed to make something that looks very much like a glowing flying saucer and exhaust fumes. Only it isn't. Details for making your own UFO can be found at http://sohowww.nascom.nasa.gov.

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The Richard Casement internship

Jan 30th 2003
From The Economist print edition

We invite applications for the 2003 Richard Casement internship. This is for a would-be journalist under 25 to spend three months of the summer on the newspaper, writing about science and technology. Our aim is more to discover writing talent in a science student than scientific aptitude in a budding journalist. Applicants should write a letter introducing themselves, along with an original article of about 600 words which they think would be suitable for publication in the Science and technology section. They should be prepared to come for an interview in London or New York, at their own expense. Applications must reach us by February 24th. They should be sent by e-mail to casement@economist.com

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About sponsorship

New fiction

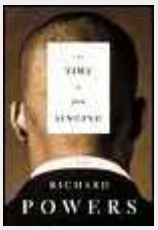
Race and intelligence

Jan 30th 2003
From The Economist print edition

When writing fiction, brains are not everything

THE more intelligent a poet the better, T.S. Eliot once claimed, a touch self-servingly. If his maxim were applied to contemporary novelists, then Richard Powers would have to be one of the best, because he is without question one of the cleverest. The winner of a MacArthur “genius” fellowship, Mr Powers has for almost 20 years taken up such arcane subjects as artificial intelligence, game theory and information technology, and woven them into compelling human dramas that are, furthermore, invariably ambitious in their linguistic and emotional reach. “The Time of Our Singing”, his eighth novel, finds him as dauntless as ever. Incorporating theoretical physics and high-flown musicology into a multigenerational saga, he brings us the story of the Strom family—gifted, racially mixed, and, inevitably, totally mixed-up.

The Time of Our Singing
By Richard Powers



Farrar, Straus and Giroux; 631 pages; $27.
William Heinemann; £14.99

Buy it at
Amazon.com
Amazon.co.uk

David Strom, a German Jewish physicist recently arrived in the United States, and Delia Daley, an African-American doctor's daughter, meet at Marian Anderson's famous 1939 concert at Washington Mall. They fall in love and resolve, in the face of enormous familial and societal hostility, to abide “beyond race” in “the independent nation of music”—which leaves them, and their three children, in every sense beyond the pale. The Strom kids—Jonah, Joseph and Ruth—are lovingly home-schooled. Although “the world was not a madrigal. The world was a howl”, the youngsters grow up “armoured” only in Lieder and arias and hymns. When young Jonah, a world-class singing prodigy, is turned down by a music school because of his Jewish connection—normally, it is his blackness that brings trouble—the family responds by gathering around the piano to sing Phrygian folk tunes: that'll learn them.

But music, for David Strom, is not only a way of placing yourself beyond the hateful jurisdiction of racial division. It is also—not unrelatedly—a way of “overthrowing space and time”. At work, as in life, the physicist “hears his way forward”, and what's audible to him is that “Time must be like chords. Not even a series of chords. An enormous polytonal cluster that has the whole horizontal tune stacked up inside it.” Understand this, Strom suggests to his children, and you get an inkling of how to withstand, or at least maintain a hopeful outlook, in the sad, unfair world that is theirs to inhabit.

Mr Powers's depiction of a poisonously racist, violent mid-century America is bold and convincing. As we follow the Stroms' trajectories—Jonah becomes a famous tenor, Joseph a workmanlike musician, Ruth a member of the Black Panthers—we are drawn into some of the harshest controversies of the age: the murder of Emmett Till, the Watts riots, the sit-ins and marches for civil rights.

This kind of panoramic, climacteric narrative—so beloved of prize committees searching for evident signs of ambition—has its risks; but Mr Powers, whose imaginative energy is seemingly inexhaustible, avoids the thinness of tone and strained momentousness that are practically built into the genre. Jonah has “a face that forever says *face*” and a voice that not only could “cut through the cold war gloom” and “make heads of state repent”, but also “could make lifelong fugitives surrender themselves”. David Strom, on his way to the Marian Anderson concert, cannot simply recall the first time he heard her sing; instead, “His thoughts tunnel backward. His each step towards

the Mall peels back the last four years, exhuming the day when he first heard this phenomenon."

"The Time of Our Singing" earns our admiration and gratitude. Yet it also provokes the thought that Richard Powers is such a good novelist—good at dialogue, good at rendering the dramatic, fine-grained reality of a human situation—that perhaps he should take the risk of writing a book that does not find a kind of safety in hierarchically approved notions of ambition or, for that matter, brains. As Anthony Burgess put it, a novelist, although he may be permitted to be an intellectual, should not be too intelligent.

The Time of Our Singing.
By Richard Powers.
Farrar, Straus and Giroux; 631 pages; $27.
William Heinemann; £14.99

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About sponsorship

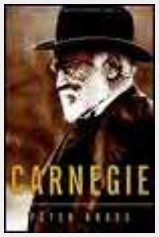
Andrew Carnegie

Pittsburgh pirate

Jan 30th 2003
From The Economist print edition

ANDREW CARNEGIE is to his biographers, friendly and hostile alike, the hardest American robber baron to fathom. Somehow they have to try to understand themselves, and make coherent to others, a dramatic change in their subject's behaviour. For this steelman, a Scots-American hated by his exploited workers and his swindled rivals, became so benevolent in old age that he gave away almost all of a fortune calculated here at $100 billion in today's money.

Carnegie
By Peter Krass



John Wiley; 624 pages; $35 and £24.50

Buy it at
Amazon.com
Amazon.co.uk

There is no doubt that Carnegie was a repellent employer. Peter Krass's description of working conditions in the industry he came to dominate is not for the squeamish. Fatal accidents in the steel mills, he calculates, accounted for 20% of all male deaths in Pittsburgh in the 1880s. Newspaper lists of men killed and wounded each year were as long as a casualty list for a small battle in the American civil war.

Carnegie could not have cared less. When a steel furnace exploded, he worried about loss of production, not loss of life. The lock-out was his favourite negotiating tactic and he hired Pinkertons to subjugate his workers when they resisted his incessant demands for lower wages for longer hours. By the age of 40, most of his men were rendered useless through working 12 hours a day, seven days a week and they were discarded.

Against this blood money, on the other side of the ledger, Mr Krass sets Carnegie's philanthropy. Over his lifetime the steelman endowed 2,811 libraries and many charitable foundations as well as the internationally famous Carnegie Endowment for International Peace. He also bought 7,689 organs for churches, “to lessen the pain of the sermons”.

In seeking to square the benevolence with the ruthlessness, Mr Krass cites two main motivating forces in his subject's life. First, Calvinism, the faith that pervaded his native Scotland. By the time he achieved wealth and fame, Carnegie claimed to be an agnostic but nonetheless “came to believe he was one of Calvin's blessed, a sanctified trustee for all of civilisation”. Second, the harsh form of Darwinism taught by Herbert Spencer, Carnegie's guru (and writer for *The Economist*). Spencer held that “society advances where its fittest members are allowed to assert their fitness with the least hindrance, and where the least fitted are not artificially prevented from dying out.”

There is, however, another, simpler explanation than Mr Krass's for the contradictions: Carnegie was a complete and utter humbug, just as ruthlessly self-serving in philanthropy as in business. Ample evidence for this view comes in this book. Carnegie was, for instance, an avowed pacifist in his early and late life but in his middle years the lure of profits enticed him to accept orders for armour, then guns and finally even “projectiles”. He claimed to be a republican, and identified himself with the common man, but retired to a life of baronial splendour in a Scottish castle. He dropped his advocacy of high tariffs, and became a fervent free-trader, but only after he had sold his steel mills. And for all his moralising cant, he did not hesitate to shift his golf ball when he had a bad lie.

Along with the hypocrisy, came such tiresome maxims as “thy own reproach alone do fear” and Carnegie's preposterous but second-hand opinions. Rubens, for instance, was “only a painter of fat, ugly women”; Raphael “really only a copyist of Perugino”. Yet the most prominent people, even American presidents and European statesmen, sucked up to him. They all wanted his money, either for themselves or their projects. Some, including Teddy Roosevelt, even wrote him begging letters. Their flattery fanned Carnegie's benevolence towards them and their causes. He loved nothing more than to see his name on a library or a university.

Mark Twain was among the very few to see how ridiculous the hangers-on made themselves. In a humorous solicitation to the billionaire, the great American novelist wrote: “You seem to be in prosperity. Could you lend an admirer a dollar and a half to buy a hymn book with? God will bless you. P.S. Don't send the hymn book, send the money. I want to make the selection myself.”

Carnegie.
By Peter Krass.
John Wiley; 624 pages; $35 and £24.50

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About sponsorship

Waxworks

Like life, like death

Jan 30th 2003
From The Economist print edition

AFTER Marie Tussaud moved her waxwork display to London's Baker Street, in 1835, one of her most regular and enthusiastic visitors was the Duke of Wellington. He would come to look at his own effigy, which was arranged as if in stony conclave with Napoleon. Then he would look at the relics of the defeated emperor himself: his coach, his toothbrush, a lock of his hair, the bloodstained camp bed on which he had died. By the late 1840s, Napoleon's customised coach was also on show. To the Iron Duke's great satisfaction, the London public was now clambering over the imperial chassis and eating sandwiches inside it.

Madame Tussaud and the History of Waxworks
By Pamela Pilbeam

Hambledon and London; 288 pages; $29.95 and £19.95

Buy it at Amazon.co.uk

It seems bizarre that waxworks should have lasted as popular entertainment, when photography and film quickly put paid to all the dioramas, cosmoramas and freak-shows that 19th-century crowds enjoyed. But the lasting appeal of waxworks, in Pamela Pilbeam's lively analysis, is a combination of Wellington's sensations. A wax statue of a person, though always redolent of the funeral parlour, is also "a semitone away from life", with eerily translucent skin and the sense that, once a viewer's back is turned, it may yet breathe and live. Wax confers a sort of immortality. Hence Wellington's solicitousness for his own figure; and hence the package of clothes sent on the eve of his hanging by John Haigh, the murderer who dissolved four women in baths of sulphuric acid and who wished to appear in the right clothes when installed in the Chamber of Horrors.

Waxworks also allow the most incongruous people to get close and touch. In the 18th century wax models were often erotic, giving young men an excuse to investigate the construction of wombs and breasts. At Madame Tussaud's, Wellington got nearer to Napoleon than anywhere else, and modern visitors can still do so. For many of the early years, the favourite exhibit was the royal family of the day eating dinner: the commoners could file past, fingering their lovely clothes and making remarks to their faces. Some small role may thereby have been played in preserving the monarchy in England. For waxworks can be cathartic, too, allowing people to vent their feelings about events and personalities that are far beyond them. Philippe Curtius, with whom Marie Tussaud trained during the French Revolution, was made to behead his model of Lafayette in public; other wax busts were carried through the streets on pikes. Unfortunately, wax did not dull the French urge to violence as it may have dulled the English.

The woman behind the world's most successful waxworks show was an unrepentant monarchist. She also remains a mystery. Her own memoirs claimed that she had moved in royal circles in France, that famous names such as Voltaire and Marat had dined at her house, and that she had been imprisoned and destined to die during the Terror of 1793-94. All this is probably rubbish, but it is true that she modelled the heads of "enemies of the Revolution" fresh from the guillotine, holding the bloody things on her knees after Curtius had pulled them from the baskets at the cemetery. (Mrs Pilbeam, a professor of 19th-century French history at London University, is particularly good on revolutionary Paris.) Waxes made from Marie's plaster moulds are still on display.

As impressive was her single-minded business sense. She left her husband in France, for good, in 1802, and took to the road in England for 33 years, eventually in a fleet of Pickford's caravans emblazoned with her name. She kept her own accounts, refusing to send any money home, and took cash at the front desk well into old age. Her great concern, after profit, was respectability: she called her enterprise a museum, not a waxwork show, and attracted the middle classes by calling it educational. She failed to rechristen the Chamber of Horrors (*Punch*'s tag) the Chamber of Comparative Physiognomy. The buffet served no alcohol, only tea and buns. And though the family firm was taken over in the 1970s, Madame Tussaud's prim and bonneted figure continues to preside over its improbable success.

Madame Tussaud and the History of Waxworks.
By Pamela Pilbeam.
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About sponsorship

Sundance film festival

And some of the winners are...

Jan 30th 2003
From The Economist print edition

What's new in independent film

PERHAPS on the theory that you cannot have too much of a good thing, there are about a dozen different prizes at the Sundance festival of independent films and awards are often split. Saying who won is never simple. Nevertheless, among the many winners this year, special mention goes to “The Station Agent”, a charming and elegant film by Tom McCarthy, which won both the audience award for feature films and the Waldo Salt prize for screenwriting. Derek Cianfrance won the cinematography prize for the dazzling camera work on “Quattro Noza”. The structural inventiveness of “American Splendor”, directed by Shari Springer Berman and Robert Pulcini, earned it the grand jury's prize for feature films. Audiences also loved this biopic, which is loosely based on the life of a morose comic-book creator. The corresponding award for documentaries went to “Capturing the Friedmans”, by Andrew Jarecki, about a family torn apart when criminal charges are brought against a father and son.

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Modern physics

The trouble with constants

Jan 30th 2003
From The Economist print edition

PHYSICS, though intellectually exciting to its practitioners, is rarely sexy. João Magueijo, a lecturer at Imperial College in London, seems to want to change that. He has written a book suggesting that the speed of light is not constant, but was faster near the moment of the big bang with which most cosmologists believe the universe started. Though evidence for it is weak, this idea may or may not be correct. It is not absurd. But it is not original either: many physicists have wondered about it at one time or another. Against this background, Mr Magueijo's attempt to portray himself as a brilliant maverick, a successor to Richard Feynman, or a rival theorist to the great Einstein, is simply laughable.

The first half of his book, a broad primer, is riddled with cliché and self-regard. The author cannot get through a discussion of Einstein's special theory of relativity without a reference to his own precocity. In the second half of his book, Mr Magueijo purports to provide, among other things, a behind-the-scenes picture of how physics is done. The attempt fails because most physicists are not as professionally bitter as Mr Magueijo. They do not typically deride each other in print or claim, for example, that the editors of scientific journals suffer from penis envy. If, as Mr Magueijo claims, he wanted us to take the diatribes that litter his book as jokes, they fall crashingly flat.

A welcome contrast is John Barrow's new book, which uses the constants of nature as touchstones in a brief history of modern physics. Mr Barrow is a professor at Cambridge (and occasional collaborator of Mr Magueijo). His main characters include *G*, the strength of gravity, *h*, Planck's constant, which governs the quantum nature of reality at small scales, *e*, the charge of the electron, and *c*, the speed of light itself. The digressions that pepper the book are sometimes fascinating. Mr Barrow's familiarity with the material allows him to glide from Pascal to Pasadena in smooth, informative paragraphs.

His central concern is how the constants of nature affect our lives (a small change in some of them would make atoms, for example, impossible) rather than how the constants are themselves measured. A chapter title, “Variations on a Constant Theme”, describes the whole book well. Certain ideas recur. One of Mr Barrow's favourites is the so-called anthropic principle. This is a controversial claim, whose import is hard to access. The rough idea is that physical constants are as they are because, were they different, life as we know it would not exist and we would not be around to calculate their values. Mr Barrow's book is neither funny peculiar nor funny ha-ha. But it is not trying to be. His thoughtful survey of recent theory provides a truer and a more varied picture of physics—and physicists—than Mr Magueijo's self-involved whinge.

Faster Than the Speed of Light: The Story of a Scientific Speculation.
By João Magueijo.
Perseus; 277 pages; $26.
William Heinemann; £18.99

The Constants of Nature: From Alpha to Omega—the Numbers That Encode the Deepest Secrets of the Universe.
By John D. Barrow.
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Paris theatre

Renewing a classic

Jan 30th 2003 | PARIS
From The Economist print edition

A radical must for anyone interested in the art of theatre

THE hottest ticket on the Paris stage is “Phèdre” directed by Patrice Chéreau for the Odéon-Théatre de L'Europe. Mr Chéreau, once an *enfant terrible* of French theatre, became widely known for his production of Wagner's Ring at Bayreuth that caused an international sensation in 1976. He then turned to film (“La Reine Margot”, “Intimacy”) but this year, after a long absence from the stage, he decided to direct “Phèdre”, Jean Racine's greatest tragedy. He says it may be his last production.

The play is presented in the Ateliers Berthier (formerly a warehouse for the Opéra Comique's scenery) as the Odéon itself is under restoration. Mr Chéreau and his designer, Richard Peduzzi, have created a magnificent theatre out of a huge studio space. The audience sit facing each other in blocks of tiered seating.

The intensity of the actors, led by Dominique Blanc as Phèdre, is heightened by the vast space they have to negotiate—they enter running, hurl themselves to the ground, sometimes shouting, even screaming. The audience collectively held its breath when the confidante, Panope, ran on to announce the death of the King Thésée, her voice choked with emotion, and they gasped with horror and relief, as if they were seeing the play for the first time, when it was announced he was in fact alive and returning to the palace.

Mr Chéreau has stressed the violence of these characters' passions, the violent expression of both their desires and the constraint of these longings: Racine's characters are all at one moment and another crushed by the weight of their shame. Ms Blanc's Phèdre consumed by love, made ill by desire for her stepson, Hippolyte, enters almost bent double as if crippled by her sin. Thésée, at the end, ravaged by grief, stands over the corpse of his son, and as he vows “Mêler nos pleurs au sang de mon malheureux fils” smears the blood on his own face and head. The superb Eric Ruf as Hippolyte and the fiery Marina Hands as Aricie play their final scene with great emotion, the eyes glistening with tears, as they speak their farewells.

Certain innovations may not be to everyone's taste. There are a few cuts and transpositions (the last four lines of the play, for example, where Thésée welcomes the luckless Aricie as an adopted daughter are dropped); the young son of Phèdre often referred to but not seen makes his stage debut: he is carefully shielded by the nurse during his mother's declaration of love to her stepson; and there are unexpected interpolations of music, sometimes wordless chords of *musique concrète*, sometimes the whispered vocals of Peter Gabriel.

The difficulties of Racine are notorious. The strict and remorseless verse (the Alexandrine couplet with its 12/12 beat) terrifies actors and bores audiences. Many a schoolchild has been lulled to sleep by the droning voices at the Comédie-Française. No one is likely to snooze during Mr Chéreau's “Phèdre”. Mr Chéreau, who has admitted to difficulties with the Alexandrine, decided to approach the venture with the humility of a student at a seminar. He has used an edition of the play with the original punctuation of the first performance which he found liberating, and he asked the actors to speak the words as if they were touching a musical instrument so that each rhyme might have a different sound. The actors have found in each couplet such truth and depth (even violence) that every line seems newly minted. The delivery is often beautiful, but always alive. They can truly claim to have conquered the Alexandrine.

Ultimately the play rests on the shoulders of the actress who plays Phèdre. This role which has been in the possession of middle-aged or elderly actresses in France from Sarah Bernhardt to Marie Bell (in England Glenda Jackson and Diana Rigg), is here transformed by the delicate and young Ms Blanc. Costumed for most of the play in widow's black, her body taut, almost wired, hands stretched, her face blanched with sorrow, she lives every moment of this tragedy with an intensity rarely encountered in the

theatre.

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Opera

The devil in the detail

Jan 30th 2003 | PARIS
From The Economist print edition

Two Russian maestros collaborate on a rarely performed work

WHEN, in St Petersburg in the 1840s, the child prodigy Anton Rubinstein heard a great Italian tenor, Rubini, sing for the first time, he wept. From that moment, he resolved to try and reproduce the purity and elegance of Rubini's singing tone in his piano playing. Baritones, or bass baritones, are fortunate that when Rubinstein came to write an opera based on the story of Mikhail Lermontov's popular poem, "The Demon", he avoided using the customary glamorous voice of the tenor for the title role. Instead, he gave the demon, his "child of hate", the grave and more menacing timbre of the baritone. Indeed, this must be one of the most seductive roles ever written for that voice.

The Kirov Opera under its charismatic leader, Valery Gergiev, is presenting "The Demon" at the Châtelet theatre in Paris for five performances. The excitement of seeing an opera rarely performed in western opera houses is enhanced by the participation of Russia's leading theatre director, Lev Dodin, the guiding force of the Maly Theatre in St Petersburg, aided by two of his regular collaborators, David Borovsky, a much admired stage designer, and Chloe Obolensky, a subtle genius of costume design. A skeletal Georgian cross frames the stage, a white chapel dominates the backcloth; the staging has the formality of a morality play. Unfortunately, the concept is more interesting than the execution, especially in the director's uncertain handling of the main characters.

As Tamara, Marina Mescheriakova, an accomplished soprano, produces excitingly powerful but at times squally tones. Her inert stage presence has not been in any way energised by Mr Dodin's well known attention to truth and detail. In his first attempt as the demon, a very talented young singer, Evgeny Nikitin, (more bass than baritone) has a burnished tone and, for the composer who loved bel canto, a beautifully controlled *legato.* Blond, with a long ponytail, his youthful appearance touchingly suggests the fallen angel rather than the cliché operatic devil. But his demon is not yet fully realised.

Still, it was wonderful to hear two stars deliver their final duet with such temperament, and to marvel at the sublime choral singing and orchestral playing under the Toscanini-like wizardry of Mr Gergiev.

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Note: “Luis Barragán”

Jan 30th 2003
From The Economist print edition

Note: “Luis Barragán—The Quiet Revolution”, which we reviewed on January 25th, and which is on show at the Palacio de Bellas Artes in Mexico City, has been extended until March 2nd. The photograph, reproduced in our review, of inside the Barragán-designed Casa Gilardi was taken by Armando Salas Portugal and provided courtesy of the Barragán Foundation.

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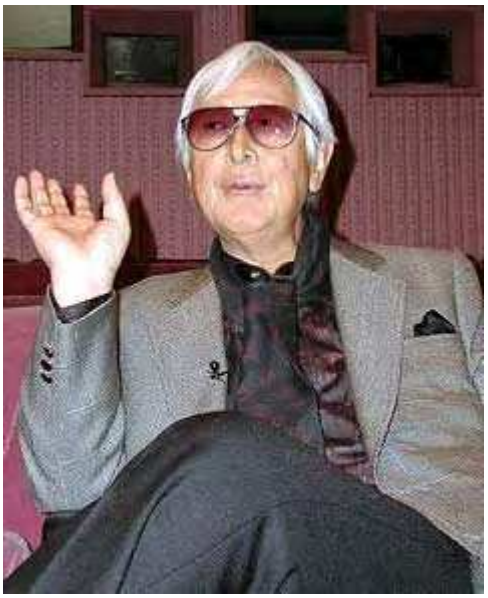
About sponsorship

Kinji Fukasaku

Jan 30th 2003
From The Economist print edition

Kinji Fukasaku, master of film violence, died on January 12th, aged 72

Reuters



WATCHING a film made by Kinji Fukasaku, you wonder why a people so courteous, so apparently peaceable as the Japanese support a popular culture that is notable for its depictions of cruelty. It is not only in film that cruelty triumphs in Japan. You may be sitting in a train in the Tokyo metro next to a pleasant young couple who are sharing a book of drawings. Out of curiosity, you take a peep at the page that has their attention. It is of a young woman being raped.

The couple are not embarrassed. Indeed, being polite Japanese, they offer the westerner a closer look. The book is of a genre known as *manga*, cartoon storybooks that are published weekly and sell by the million. Then there are the game shows, watched on television by audiences even larger than those for films and *manga* books, and devised to expose their willing participants to humiliation bordering on sadism.

Mr Fukasaku's contribution to Japan's carnival of cruelty was a series of extraordinary films made over a period of 40 years. In Japan many regarded him as its finest director and his films were consistently successful, both at the box-office and with the critics. But they did not travel well. They had big audiences in South Korea and Hong Kong. In the United States Quentin Tarantino (“Reservoir Dogs”) was an enthusiast. But in most western countries audiences with a taste for Japanese films generally tended to prefer the work of the more lyrical Akira Kurosawa (“The Seven Samurai”).

There does seem to be a line drawn between what is publicly acceptable in Japan and in Europe. Hollywood morality seeks to soften its film-makers' more brutish ideas with an ending that at least sends away an audience comforted that the wicked have been punished. “Poor humanity,” wrote Alphonse Daudet, “you shouldn't tell it everything.” Mr Fukasaku, though, reckoned that violence in popular entertainment helped to keep Japan peaceful. It was a form of release. Some commentators say that Japanese men anyway demand a robust culture, and women feel unable to object. These are reasoned opinions, if contentious ones.

With the gangsters

During the second world war, when Kinji Fukasaku was in his early teens, he worked in a munitions factory that was bombed day after day. “I had to clean up the corpses,” he said. After the war he studied cinema at Nihon University in Tokyo and was taken on as an apprentice by Toei, a film company. Under the American occupation, no military films could be made. Toei's preference was for historical costume dramas. Mr Fukasaku sought more contemporary stories and became interested in the *yakuza*, gangsters who regarded themselves as upholders of traditional Japanese virtues as they pursued their careers of graft, blackmail and vice. In a series of films Mr Fukasaku sought to enter the world of the gangster. He claimed, reasonably, that the films had a social purpose, showing that there was not much virtue in the *yakuza*, who were driven by greed. But the image that remained in the minds of the audience as the lights came on was more likely to be of gangsters atoning for bungled jobs by chopping off their little fingers. Grisly violence had become Mr Fukasaku's speciality. He made films with other themes, among them space travel. He directed the Japanese scenes in “Tora! Tora! Tora!”, a film jointly made with an American company about the attack on Pearl Harbour. He did some costume dramas, which were praised for their accuracy. But violence called again.

In “Battle Royale”, his 61st and final film, a group of students is taken to an island. Each student is given a weapon and told to kill each other. Mr Fukasaku said it was about survival. It echoed his experience as a wartime teenager: “Even though we were friends working together, the only thing we would be thinking of was self-preservation. We would try to get behind each other or beneath dead bodies to avoid the bombs.” But he said the film was also about the despair felt by the children of parents who had lost confidence in themselves as a result of Japan's long recession. “I couldn't give the film a happy ending, because Japanese don't feel hope anymore. It's a fairy tale, but a dark one.”

For some in authority Mr Fukasaku had gone too far. Here were all these delightful young people told to kill or be killed. There was a debate about the film in parliament and it was barred to anyone under 15, an unusual act of censorship in Japan. Some said that what really upset the authorities was that the film seemed to depict Japan's fiercely competitive educational system. Others said it was an unfair attack on game shows: the students were selected by lottery, and the killing had become a game. No one made too much of the obvious: that it would encourage teenage crime.

This may be because Japan seems to be the safest of the rich countries. If you believe the statistics, the ratio of its reported crimes to the population is well below that of the United States and Britain, even allowing for a rise in crime during the long recession. Japanese police naturally take the credit. So do the *yakuza*, for keeping their competitors under control. And to keep the contest fair, don't forget Kinji Fukasaku, for allowing violence its outlet.

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Overview

Jan 30th 2003
From The Economist print edition

Stockmarkets tumbled all round the world, on concerns about an increasingly likely war with Iraq. Every market in our table fell, with the exception of Austria's. America's Dow Jones Industrial Average dropped by 2.5% over the week; London's FTSE 100, which at one point fell for 11 days running, shed 5.3%. The dollar hit a three-year low of $1.09 against the euro. The price of gold hit a six-year high.

American consumer confidence fell to a nine-year low in January, according to the Conference Board. However, the housing market remains strong: new-home sales rose by 3.5% in December to an all-time record.

Industrial production in **Japan** fell in December for the fourth successive month. Output was still 6.7% higher than a year ago, but the new figures raise concerns that GDP may have contracted in the fourth quarter of 2002.

Britain's GDP growth slowed to an annualised 1.3% in the fourth quarter. New figures showed that mortgage lending rose by 36% last year, driven largely by equity withdrawal as households borrowed more against the rising value of their homes. But in December net mortgage lending slowed.

In the **euro area** the 12-month rate of growth in broad-money supply fell to 6.8% in December—its slowest for more than a year. **Italy's** retail sales fell by 1% in the year to November.

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Output, demand and jobs

Jan 30th 2003
From The Economist print edition

% change on year ago

	GDP		The Economist poll GDP forecasts		Industrial production		Retail sales (volume)		Unemployment % rate	
	1 qtr*	1 year	2002	2003	latest		latest		latest	year ago
Australia	+ 3.5	+ 3.7 Q3	+ 3.7	+ 3.2	+ 1.6	Q3	+ 5.4	Q3	6.2 Dec	6.7
Austria	+ 0.3	+ 1.2 Q3	+ 0.7	+ 1.3	+ 1.7	Nov	+ 0.6	Nov	4.1 Nov	3.8
Belgium	+ 1.8	+ 0.9 Q3	+ 0.6	+ 1.4	+ 3.1	Nov	nil	Oct	11.7 Dec†	10.8
Britain	+ 1.3	+ 2.2 Q4	+ 1.6	+ 2.4	– 1.1	Nov	+ 6.4	Dec	5.2 Nov††	5.1
Canada	+ 3.1	+ 4.0 Q3	+ 3.3	+ 3.1	+ 5.2	Oct	+ 6.0	Oct	7.5 Dec	8.0
Denmark	– 2.6	+ 1.1 Q3	+ 1.5	+ 1.8	– 0.8	Nov	+ 7.5	Oct	5.4 Nov	5.0
France	+ 0.9	+ 1.0 Q3	+ 1.0	+ 1.6	+ 1.5	Oct	+ 2.5	Nov	9.0 Nov	8.8
Germany	+ 1.1	+ 0.4 Q3	+ 0.2	+ 0.8	+ 2.5	Nov	– 6.0	Nov	10.1 Dec§	9.5
Italy	+ 1.1	+ 0.5 Q3	+ 0.4	+ 1.3	+ 5.6	Nov	– 1.0	Nov	8.9 Oct	9.3
Japan	+ 3.2	+ 1.3 Q3	– 0.3	+ 0.4	+ 6.7	Dec	– 1.8	Nov	5.3 Nov	5.4
Netherlands	+ 1.0	+ 0.3 Q3	+ 0.2	+ 1.0	+ 0.1	Nov	– 1.1	Nov	2.5 Dec**	1.8
Spain	+ 3.2	+ 1.8 Q3	+ 2.0	+ 2.3	+ 0.8	Nov	na		11.8 Nov	10.7
Sweden	+ 1.6	+ 2.0 Q3	+ 1.8	+ 2.1	– 0.5	Nov	+ 4.6	Nov	4.1 Dec†	3.6
Switzerland	+ 1.3	+ 0.6 Q3	– 0.1	+ 1.0	– 3.5	Q3	– 4.1	Nov	3.6 Dec†	2.4
United States	+ 4.0	+ 3.3 Q3	+ 2.4	+ 2.5	+ 2.1	Dec	+ 3.3	Nov	6.0 Dec	5.8
Euro area	+ 1.3	+ 0.8 Q3	+ 0.7	+ 1.3	+ 3.0	Nov	+ 1.6	Oct	8.4 Nov	8.0
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*									
Finland	+ 1.9	+ 2.3 Q3	na	na	+ 5.4	Nov	+ 3.8	Oct	8.1 Dec†	8.1
Greece	na	+ 3.6 Q3	na	na	+ 1.1	Nov	na		na	na
Iceland	na	+ 3.62001	na	na	+12.2	2001	na		2.8 Nov†	1.5
Ireland	na	+ 6.5 Q2	na	na	+18.6	Nov	– 0.7	Nov	4.4 Dec	4.1
Luxembourg	na	+ 1.02001	na	na	– 0.7	Oct	– 5.6	Aug	3.4 Dec†	2.7
New Zealand	+ 5.0	+ 5.0 Q3	na	na	+ 5.1	Q3	+ 8.1	Q3	5.4 Q3	5.2
Norway	– 0.9	+ 1.0 Q3	na	na	– 5.1	Nov	+ 2.8	Oct	3.8 Q3	3.6
Portugal	+ 2.8	+ 0.9 Q2	na	na	+ 1.3	Dec	+ 0.6	Nov	5.1 Q3†	4.0

*% change at an annual rate. †Not seasonally adjusted. ††Sep-Nov; claimant count rate 3.1% in Dec. §EU harmonised rate 8.5% in Dec. **Oct-Dec.

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Prices and wages

Jan 30th 2003
From The Economist print edition

% change on year ago

	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2002	2003	latest		year ago	latest		year ago
Australia	+ 3.0	Q4	+ 3.1	+ 3.0	+ 2.7	+ 1.6	Q4	– 0.7	+ 3.6	Q3	+ 4.0
Austria	+ 1.8	Dec	+ 1.9	+ 1.8	+ 1.6	+ 0.8	Dec	– 1.1	+ 2.2	Dec	+ 2.7
Belgium	+ 1.4	Dec	+ 2.2	+ 1.7	+ 1.3	+ 1.4	Dec	– 2.6	+ 2.2	Q4	+ 3.1
Britain	+ 2.9	Dec	+ 0.7	+ 1.9	+ 2.5	+ 1.2	Dec	– 1.1	+ 3.8	Nov	+ 4.1
Canada	+ 3.9	Dec	+ 0.7	+ 2.2	+ 2.5	+ 2.2	Nov	– 2.1	+ 2.4	Oct	+ 2.5
Denmark	+ 2.5	Dec	+ 2.2	+ 2.4	+ 2.0	+ 1.3	Dec	+ 0.4	+ 3.9	Q3	+ 4.3
France	+ 2.3	Dec	+ 1.4	+ 1.8	+ 1.5	+ 1.7	Dec	– 1.6	+ 3.4	Q3	+ 4.2
Germany	+ 1.1	Jan	+ 2.1	+ 1.3	+ 1.0	+ 1.1	Dec	– 1.5	+ 2.3	Nov	+ 2.0
Italy	+ 2.8	Dec	+ 2.4	+ 2.5	+ 2.1	+ 1.5	Dec	– 1.3	+ 2.1	Nov	+ 2.8
Japan	– 0.4	Nov	– 1.0	– 0.9	– 0.7	+ 0.3	Nov	– 0.8	+ 0.6	Nov	+ 0.6
Netherlands	+ 3.2	Dec	+ 4.4	+ 3.8	+ 2.5	+ 2.1	Nov	– 2.5	+ 3.4	Nov	+ 4.9
Spain	+ 4.0	Dec	+ 2.7	+ 3.5	+ 2.8	+ 2.0	Dec	– 0.8	+ 3.8	Q3	+ 3.6
Sweden	+ 2.3	Dec	+ 2.9	+ 2.4	+ 2.0	– 0.6	Dec	– 0.8	+ 3.1	Oct	+ 2.6
Switzerland	+ 0.9	Dec	+ 0.3	+ 0.7	+ 0.7	– 0.3	Dec	– 1.9	+ 2.5	2001	+ 1.3
United States	+ 2.4	Dec	+ 1.6	+ 1.6	+ 2.0	+ 1.2	Dec	– 1.6	+ 3.0	Dec	+ 3.7
Euro area	+ 2.3	Dec	+ 2.0	+ 2.2	+ 1.7	+ 1.1	Nov	– 1.3	+ 3.3	Q3	+ 3.0
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 1.7	Dec	+ 1.8	na	na	+ 1.4	Dec	– 2.7	+ 3.5	Q3	+ 4.7
Greece	+ 3.4	Dec	+ 3.0	na	na	+ 2.1	Nov	– 0.5	na		na
Iceland	+ 1.4	Jan	+ 9.4	na	na	+ 2.7	Jan	+11.4	+ 5.4	Dec	+ 9.6
Ireland	+ 5.0	Dec	+ 4.2	na	na	– 0.6	Dec	+ 0.2	+ 6.2	Q3	+ 8.1
Luxembourg	+ 2.2	Dec	+ 1.7	na	na	– 0.2	Nov	– 1.0	+ 0.3	Oct*	+ 2.2
New Zealand	+ 2.7	Q4	+ 1.8	na	na	– 1.7	Q3	+ 6.2	+ 2.3	Q3	+ 2.0
Norway	+ 2.8	Dec	+ 2.1	na	na	+10.1	Dec	–14.1	+ 5.0	Q3	+ 4.8
Portugal	+ 4.0	Dec	+ 3.7	na	na	+ 1.3	Dec*	+ 0.6	– 0.7	Nov*	+ 4.2

*Revised series.

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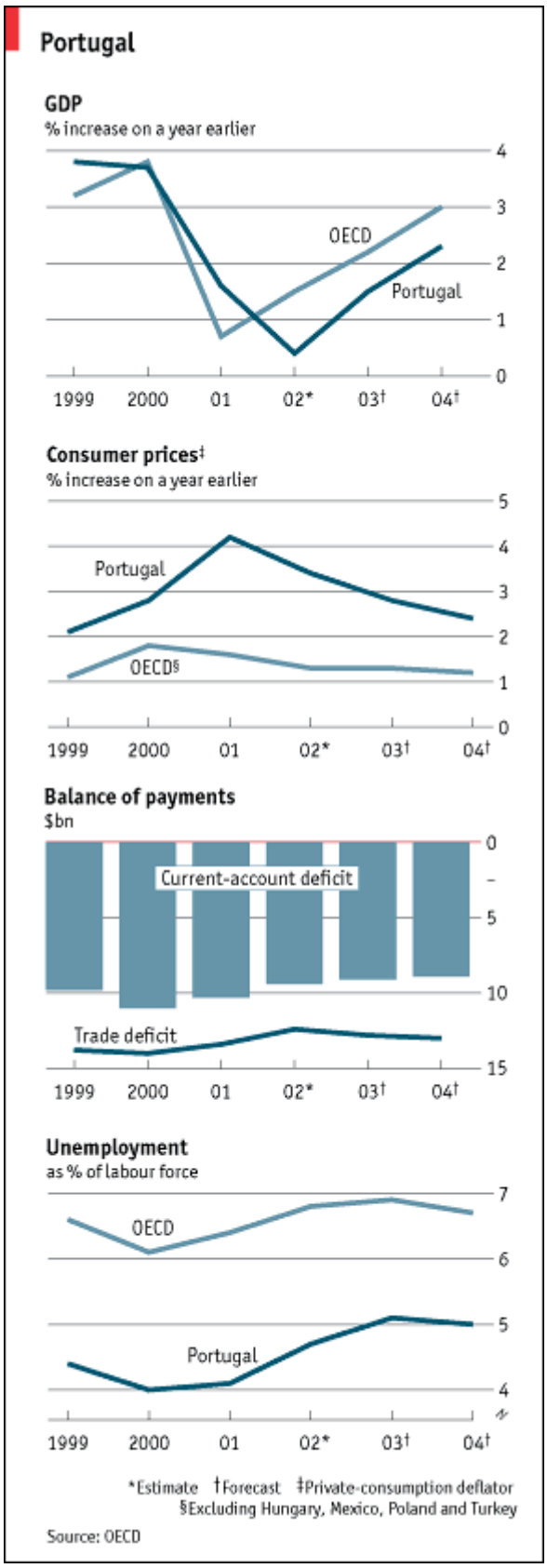
Portugal

Jan 30th 2003
From The Economist print edition

Portugal boomed in the late 1990s, but recently both its economy and its public finances have been in trouble. In 2001, the budget deficit breached the euro area's stability-and-growth pact limit of 3% of GDP by a large margin. This led to substantial cuts in public spending and rises in taxes, intended to keep the deficit in 2002 to 2.8% of GDP. However, the OECD estimates that the true shortfall was still 3.4% of GDP. The tightening in fiscal policy, which has continued in the budget for 2003, means that recovery will rely heavily on foreign demand. But with the outlook for growth in the euro area darkening, the prospects for Portugal look unpromising. After growing by an estimated 0.4% in 2002, the economy is expected to grow by 1.5% this year and by 2.3% in 2004. And the OECD does not expect the budget deficit to fall below the stability pact's 3% ceiling until next year.



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Money and interest rates

Jan 30th 2003
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Jan 29th 2003)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	– 8.1	+ 9.7	Nov	4.77	4.29	4.53	5.15	5.92	6.16
Britain	+ 5.1	+ 6.9	Dec	3.88	3.97	3.60	4.22	4.92	5.80
Canada	+ 5.0	+ 5.1	Dec	2.83	1.97	3.45	5.03	5.39	6.77
Denmark	+ 3.8	+ 4.6	Dec	3.10	3.65	2.89	4.24	5.09	6.85
Japan	+25.2	+ 2.2	Dec	0.03	0.03	0.05	0.78	1.48	0.91
Sweden	+ 0.7	+ 2.4	Oct	3.66	3.82	3.67	4.50	5.27	4.11
Switzerland	+10.1	+ 5.6	Dec	0.60	1.69	0.16	2.27	3.48	3.13
United States	+ 3.4	+ 6.3	Dec	1.24	1.77	1.72	4.03	4.98	6.18
Euro area†	+ 9.8	+ 6.8	Dec	2.81	3.36	2.56	3.97	4.86	4.52

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 4.91%, Japan No.245 0.775%. Central bank rates: US fed funds 1.25%, ECB refinancing 2.75%, BOJ overnight call 0.002%, BOE repo 4.00%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsbörsen, UBS Warburg, Global Insight, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Jan 30th 2003
From The Economist print edition

1995=100

	Jan 21st	Jan 28th*	% change on one month	% change on one year
Dollar index				
All items	76.9	78.0	+ 4.4	+16.1
Food	79.2	80.6	+ 3.7	+18.1
Industrials				
All	73.8	74.4	+ 5.4	+13.3
Nfa†	75.4	76.9	+ 3.8	+18.6
Metals	72.4	72.4	+ 6.8	+ 8.9
Sterling index				
All items	75.3	75.0	+ 2.4	– 0.1
Euro index				
All items	94.7	94.7	+ 1.1	– 7.7
Yen index				
All items	97.0	98.4	+ 4.3	+ 3.1
Gold				
$ per oz	356.80	368.85	+ 7.6	+32.4
West Texas Intermediate				
$ per barrel	34.06	32.64	+ 4.3	+69.3

* Provisional. † Non-food agriculturals.

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Stockmarkets

Jan 30th 2003
From The Economist print edition

Market indices

	Jan 29th	2002-03 high	2002-03 low	% change on one week	% change on record high	% change on Dec 31st 2001 in local currency	% change on Dec 31st 2001 in $ terms
Australia (All Ordinaries)	2,929.9	3,440.0	2,855.5	– 2.3	–14.8	–12.8	+ 0.7
Austria (ATX)	1,160.2	1,357.2	1,003.7	+ 0.5	–33.2	+ 1.7	+24.2
Belgium (Bel 20)	1,809.6	2,899.8	1,773.7	– 4.0	–50.9	–35.0	–20.6
Britain (FTSE 100)	3,483.8	5,323.8	3,480.8	– 5.3	–49.7	–33.2	–24.4
Canada (Toronto Composite)	6,573.2	7,958.1	5,695.3	– 2.2	–42.3	–14.5	–10.5
Denmark (KBX)	156.0	233.4	156.0	– 6.5	–48.3	–30.6	–15.3
France (SBF 250)	1,912.7	3,081.9	1,794.5	– 3.1	–56.4	–35.8	–21.7
(CAC 40)	2,840.1	4,688.0	2,656.5	– 3.1	–59.0	–38.6	–25.0
Germany (DAX)	2,706.6	5,462.6	2,597.9	– 3.4	–66.4	–47.5	–36.0
Italy (BCI)	1,018.5	1,513.0	974.4	– 4.1	–53.3	–28.9	–13.3
Japan (Nikkei 225)	8,331.1	11,979.9	8,303.4	– 3.3	–78.6	–21.0	–12.2
(Topix)	825.7	1,139.4	760.1	– 3.3	–71.4	–20.0	–11.2
Netherlands (AEX)	282.7	531.2	282.7	– 6.0	–59.7	–44.2	–31.9
Spain (Madrid SE)	621.7	848.1	568.5	– 4.6	–45.8	–24.6	– 8.0
Sweden (Affarsvarlden Gen)	137.3	236.8	122.7	– 6.5	–65.7	–40.7	–26.5
Switzerland (Swiss Market)	4,332.2	6,694.1	4,303.5	– 4.2	–48.5	–32.5	–17.0
United States (DJIA)	8,110.7	10,635.3	7,286.8	– 2.5	–30.8	–19.1	–19.1
(S&P 500)	864.4	1,172.5	776.8	– 1.6	–43.4	–24.7	–24.7
(NASDAQ Comp)	1,358.1	2,359.5	1,114.1	– 0.1	–73.1	–30.4	–30.4
Europe (FTSE Eurotop 300)*	776.7	1,279.7	771.1	– 4.4	–54.4	–38.4	–24.8
Euro area (FTSE Ebloc 100)*	661.1	1,125.1	639.4	– 4.1	–57.4	–40.6	–27.4
World (MSCI)†	770.0	1,024.4	703.7	– 2.2	–46.9	na	–23.3
World bond market (Salomon)‡	537.9	832.5	430.3	+ 1.0	+ 1.3	na	+22.3

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms.
‡Salomon Smith Barney World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

Jan 30th 2003
From The Economist print edition

	Trade balance*, $bn latest 12 months		Current account $bn latest 12 mths		The Economist poll % of GDP, forecast 2002	2003	Exchange rate trade-weighted† 1990=100 Jan 29th	year ago	Currency units per $ Jan 29th	year ago	per £	per euro	per ¥100	Budget balance % of GDP 2002‡
Australia	− 3.8	Nov	− 14.3	Q3	− 3.9	− 4.1	75.3	73.4	1.69	1.98	2.79	1.84	1.43	0.1
Austria	nil	Oct	− 0.6	Nov	− 0.4	− 0.7	101.1§	100.0	0.92	1.16	1.52	–	0.78	-1.6
Belgium	+ 18.0	Nov	+ 18.0	Nov	+ 5.0	+ 5.0	100.4§	98.8	0.92	1.16	1.52	–	0.78	nil
Britain	− 51.1	Nov	− 20.5	Q3	− 1.7	− 1.8	104.2	107.4	0.61	0.71	–	0.66	0.51	-1.4
Canada	+ 28.9	Nov	+ 12.4	Q3	+ 1.9	+ 1.9	77.0	76.2	1.53	1.59	2.51	1.66	1.29	0.6
Denmark	+ 7.4	Nov	+ 4.0	Nov	+ 2.3	+ 2.0	104.6	101.8	6.84	8.62	11.3	7.43	5.80	2.2
France	+ 8.1	Nov	+ 27.7	Nov	+ 1.6	+ 1.6	103.4§	101.4	0.92	1.16	1.52	–	0.78	-2.7
Germany	+118.4	Nov	+ 45.3	Nov	+ 1.8	+ 1.7	100.4§	98.1	0.92	1.16	1.52	–	0.78	-3.7
Italy	+ 10.5	Nov	− 5.0	Nov	− 0.1	− 0.1	73.7§	72.4	0.92	1.16	1.52	–	0.78	-2.3
Japan	+ 92.6	Nov	+114.8	Nov	+ 2.8	+ 2.8	131.6	128.6	118	133	194	128	–	-7.9
Netherlands	+ 28.0	Nov	+ 9.0	Q3	+ 3.6	+ 3.4	99.5§	97.7	0.92	1.16	1.52	–	0.78	-0.8
Spain	− 38.7	Nov	− 14.3	Oct	− 2.1	− 1.8	75.3§	74.1	0.92	1.16	1.52	–	0.78	nil
Sweden	+ 14.8	Dec	+ 10.8	Nov	+ 3.4	+ 3.2	78.6	75.5	8.47	10.7	14.0	9.21	7.18	1.7
Switzerland	+ 4.5	Nov	+ 29.8	Q3	+10.0	+10.3	116.3	111.7	1.35	1.71	2.22	1.47	1.14	na
United States	−467.0	Nov	−462.2	Q3	− 4.7	− 5.0	107.8	124.3	–	–	1.65	1.09	0.85	-3.1
Euro area	+ 98.3	Nov	+ 37.4	Oct	+ 0.6	+ 0.7	86.1	77.7	0.92	1.16	1.52	–	0.78	-2.2
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 13.5	Nov	+ 10.0	Nov	na	na	79.3§	78.3	0.92	1.16	1.52	–	0.78	3.2
Greece	− 21.1	Nov	− 8.4	Nov	na	na	58.2§	57.4	0.92	1.16	1.52	–	0.78	-1.1
Iceland	+ 0.2	Nov	nil	Q3	na	na	91.9**	84.9	77.6	103.6	128	84.3	65.8	0.3
Ireland	+ 35.2	Oct	+ 0.1	Q3	na	na	89.8§	87.1	0.92	1.16	1.52	–	0.78	-0.5
Luxembourg	− 2.7	Oct	+ 2.1	Q3	na	na	100.4§	98.8	0.92	1.16	1.52	–	0.78	1.8
New Zealand	− 0.5	Nov	− 1.7	Q3	na	na	95.8	82.0	1.82	2.41	3.00	1.98	1.54	1.6
Norway	+ 25.7	Dec	+ 26.1	Nov	na	na	106.1	97.4	6.87	9.08	11.3	7.47	5.82	12.4
Portugal	− 12.7	Oct	− 9.8	Nov	na	na	91.1**	90.2	0.92	1.16	1.52	–	0.78	-3.4

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, November average. ‡OECD forecast. **IMF, September average.

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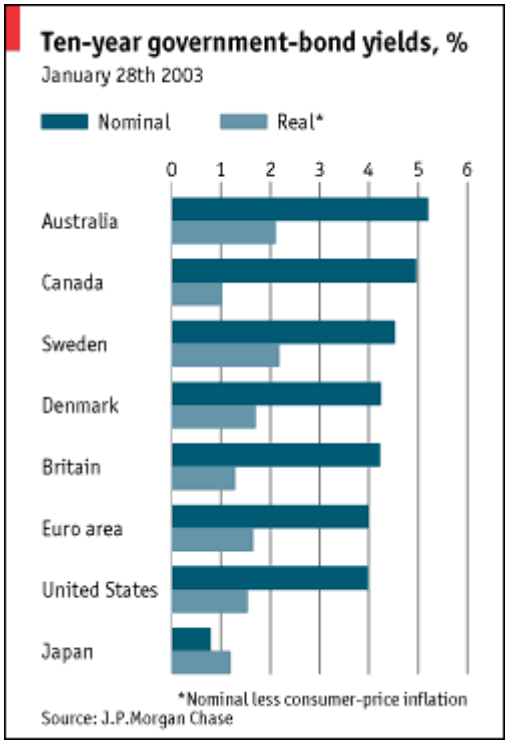
Ten-year government-bond yields

Jan 30th 2003
From The Economist print edition



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Overview

Jan 30th 2003
From The Economist print edition

Brazil's current-account deficit shrank from $23.2 billion (4.6% of GDP) in 2001 to $7.8 billion (1.7% of GDP) last year. As the *real* tumbled, Brazil's trade surplus jumped from $2.6 billion in 2001 to $13.1 billion in 2002. In contrast, **Mexico** had a trade deficit of just over $8 billion in 2002. **Egypt** freed its currency to float against the dollar: it promptly depreciated by 16%.

A boom in car and semiconductor production pushed **South Korea's** industrial output up by 9.5% in the year to December. In **Singapore**, strong growth in electronics helped to push industrial production up by 19% over the same period. Meanwhile, in **the Philippines**, industrial output fell by 0.7% in the year to November.

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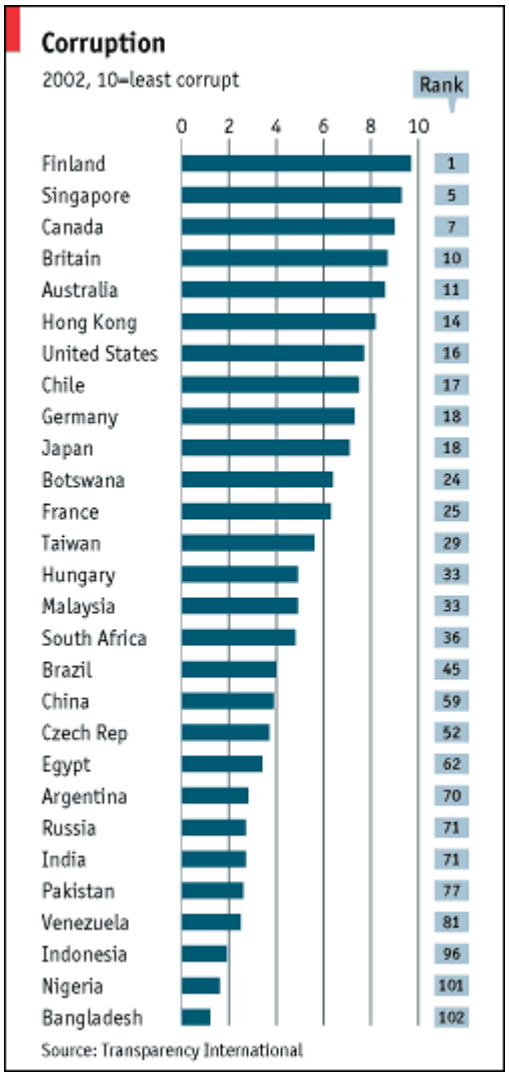
Corruption

Jan 30th 2003
From The Economist print edition

Finland is reckoned to be the least corrupt country in the world, according to the latest annual index of perceptions of corruption compiled by Transparency International, a Berlin-based organisation that tries to highlight and fight corruption worldwide. The index focuses on the misuse of public office for private gain. Germany is considered to be more corrupt than Chile, and France is seen as more corrupt than Botswana.



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Economy

Jan 30th 2003
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	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+11.2	Q4	+14.9	Dec	– 0.4	Dec	+30.4	Dec	+17.4	2001	269.9	Oct
Hong Kong	+ 3.3	Q3	– 7.2	Q3	– 1.5	Dec	– 7.6	Dec	+16.5	Q3	111.6	Dec
India	+ 5.8	Q3	+ 3.6	Nov	+ 3.6	Nov	– 6.9	Nov	+ 4.5	Q3	67.0	Dec
Indonesia	+ 3.9	Q3	– 7.6	Jul‡	+10.0	Dec	+25.7	Nov	+ 6.9	Q2	29.0	Nov
Malaysia	+ 5.6	Q3	+ 6.4	Nov	+ 1.7	Dec	+13.5	Nov	+ 6.6	Q3	33.3	Nov
Philippines	+ 5.8	Q4	– 0.7	Nov	+ 2.6	Dec	+ 1.8	Nov	+ 6.1	Sep	13.0	Dec
Singapore	+ 2.6	Q4	+19.0	Dec	+ 0.4	Dec	+ 8.7	Dec	+18.9	Q3	82.3	Dec
South Korea	+ 5.8	Q3	+ 9.5	Dec	+ 3.8	Jan	+11.3	Dec	+ 6.5	Nov	121.3	Dec
Taiwan	+ 4.8	Q3	+10.5	Dec	+ 0.8	Dec	+18.1	Dec	+25.0	Q3	161.7	Dec
Thailand	+ 6.0	Q3	+10.9	Nov	+ 1.6	Dec	+ 4.8	Nov	+ 7.8	Nov	36.9	Nov
Argentina	–10.1	Q3	– 4.6	Nov	+41.0	Dec	+16.3	Nov	+ 7.0	Q3	10.5	Dec
Brazil	+ 2.4	Q3	+ 4.5	Dec	+12.5	Dec	+13.1	Dec	– 7.8	Dec	37.8	Dec
Chile	+ 1.8	Q3	+ 7.2	Dec	+ 2.8	Dec	+ 2.4	Dec	+ 0.9	Q3	15.4	Dec
Colombia	+ 1.9	Q3	+ 5.3	Oct	+ 7.0	Dec	+ 0.1	Oct	– 1.5	Q3	10.6	Dec
Mexico	+ 1.8	Q3	– 0.5	Nov	+ 5.7	Dec	– 8.2	Dec	–16.1	Q3	46.8	Nov
Peru	+ 5.9	Nov	+ 7.4	Nov	+ 1.5	Dec	+ 0.3	Nov	– 1.0	Q3	9.2	Nov
Venezuela	– 5.5	Q3	–10.5	Oct	+31.2	Dec	+11.4	Q3	+ 4.9	Q3	8.8	Oct
Egypt	+ 3.1	2002†	+ 7.8	2001†	+ 2.8	Oct	– 8.0	Sep	+ 0.1	Q3	12.9	Sep
Israel	– 0.8	Q3	– 4.0	Nov	+ 6.5	Dec	– 6.8	Dec	– 1.9	Q3	24.0	Dec
South Africa	+ 3.1	Q3	+ 2.5	Nov	+14.4	Dec	+ 3.6	Nov	nil	Q3	6.0	Nov
Turkey	+ 7.9	Q3	+ 8.6	Nov	+29.7	Dec	–13.6	Nov	+ 0.6	Oct	26.0	Nov
Czech Republic	+ 1.5	Q3	+ 4.4	Nov	+ 0.6	Dec	– 2.4	Dec	– 4.2	Q3	23.6	Dec
Hungary	+ 3.4	Q3	+ 6.0	Nov	+ 4.8	Dec	– 3.0	Nov	– 3.3	Nov	9.8	Nov
Poland	+ 1.6	Q3	+ 5.1	Dec	+ 0.8	Dec	–10.2	Nov	– 6.7	Nov	28.7	Dec
Russia	+ 4.3	Q3	+ 3.2	Dec	+15.1	Dec	+44.2	Nov	+30.3	Q3	44.1	Dec
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Pakistan	+ 3.3	2001†	– 0.5	Jun	+ 3.3	Dec	– 1.3	Dec	+ 2.7	2002†	7.3	Nov
Saudi Arabia	+ 1.2	2001	na		– 0.9	Oct	+39.2	2001	+ 9.4	2001	21.4	Nov

*Excluding gold, except Singapore; IMF definition. †Year ending June. ‡New series.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; UBS Warburg; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; *Russian Economic Trends*.

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Financial markets

Jan 30th 2003
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Jan 29th		Dec 31st 2001	
	Jan 29th	year ago	Jan 29th	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	13.6	na	1,567.3	+2.7	– 8.5	– 8.5
Hong Kong	7.80	7.80	12.8	1.43	9,240.8	– 3.3	– 18.9	– 18.9
India	47.8	48.5	78.7	5.56	3,238.0	– 3.5	– 0.7	+ 0.2
Indonesia	8,850	10,325	14,579	13.43	391.5	– 3.5	– 0.1	+ 17.4
Malaysia	3.80	3.80	6.26	3.10	665.4	– 1.0	– 4.4	– 4.4
Philippines	53.7	51.2	88.5	7.50	1,039.3	– 1.3	– 11.0	– 14.6
Singapore	1.73	1.83	2.85	0.81	1,302.9	– 4.8	– 19.8	– 14.3
South Korea	1,166	1,306	1,921	4.54	583.4	– 6.3	– 15.9	– 5.3
Taiwan	34.6	34.9	56.9	1.50	5,015.2§	+0.4	– 9.7	– 8.5
Thailand	42.7	44.0	70.3	1.84	369.7	– 0.9	+ 21.7	+ 26.1
Argentina	3.33	1.88	5.48	6.10	557.4	– 2.0	+ 88.7	– 43.2
Brazil	3.64	2.44	6.00	25.40	10,863.3	– 2.5	– 20.0	– 49.2
Chile	739	678	1,217	2.52	4,940.1	– 1.2	– 8.5	– 18.1
Colombia	2,949	2,267	4,858	7.60	1,645.1	– 0.4	+ 53.6	+ 18.6
Mexico	11.00	9.19	18.1	9.08	5,938.0	– 1.4	– 6.8	– 22.3
Peru	3.50	3.48	5.76	3.72	1,529.8	– 0.4	+ 30.2	+ 28.1
Venezuela	1,922	765	3,166	29.91	8,690.4	+8.4	+ 32.3	– 47.9
Egypt	5.36	4.63	8.83	4.82	5,754.5	+4.5	+ 9.1	– 6.8
Israel	4.85	4.60	7.98	6.03	320.6	+2.0	– 28.2	– 34.6
South Africa	8.6	11.4	14.2	13.60	8,953.2	– 5.2	– 14.3	+ 19.6
Turkey	1,648,000	1,324,500	2,714,750	42.00	10,725.7	+1.7	– 22.2	– 31.3
Czech Republic	29.0	36.9	47.7	2.69	465.6	– 0.7	+ 18.0	+ 44.9
Hungary	224	282	370	6.12	7,482.5	– 3.3	+ 4.9	+ 28.5
Poland	3.79	4.15	6.25	6.49	13,923.9	– 2.6	+ 0.0	+ 4.2
Russia	31.8	30.7	52.4	21.00	346.6	+1.1	+ 39.1	+ 33.3
EMF (MSCI)*	1.00	1.00	1.65	na	289.1	– 2.4	na	– 8.9
EMBI+†	1.00	1.00	1.65	na	231.8	+0.6	na	+ 15.7

*Emerging Mkts Free. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡ In $ terms. §Jan 28th.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; UBS Warburg; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; *Russian Economic Trends*.

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